China / Hong Kong Industry Focus
China Banking Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity   7 July 2015

2H15 outlook: reforms in place

- Pullback creates a good entry opportunity
- Asset quality and earnings growth to recove
- Sector reforms are long-term drivers
- Top picks BoCom-H & CITIC-H; ICBC-A & CMB-A

Asset quality and earnings growth to recover. We do not expect much more pressure on NIM during the rate cut cycle (pg5), since China has largely completed its interest rate liberalization process. There is still a lot of room for RRR cuts to boost liquidity and loan growth. (pg4) Concerns on local government loans should be largely eased by local government's debt swap program (pg8). With GDP growth to stabilise at c.7% in 2H15, which is the New Normal, China banks' NPL formation ratio and credit cost should stablise (pg10), although overall NPL ratio will likely rise and top at 2% by 2017. As mentioned in our 1Q15 results recap, we believe 2015 will be the slowest year in recent history for banks' earnings growth, but we expect earnings recovery in 2016-2017.

Fuelled by sector reform. Mixed-ownership reform will make a difference as the better ownership structure will pave the road for a market-oriented compensation system, multi-divisional reforms (pg14) and potential subsidiary spinoffs, and the employee stock ownership plan (ESOP), should enhance banks' efficiency in the long-run. Overseas markets can be a new growth driver as banks expand alongside clients due to China's One-Belt-One-Road Plan. (pg15). In future, we also expect higher contribution from private banking and wealth management businesses in tandem with development of China's capital markets. BoCom's recent acquisition of Huaying Sec. signals the potential mixed-operation reform in the financial sector and the rise of universal banks.

Entry opportunity for H-share banks; Top picks BoCom-H & CITIC-H; ICBC-A & CMB-A. After the pull-back in the past month, H-share China banks are trading at an attractive 0.9x FY15 P/BV on average, creating a good entry opportunity. We are looking for at least 20% upside for H-share China banks, and A-share banks should see a short-term boost driven by the market bailout plan (pg20). We like banks that will benefit from financial sector reforms and have strong innovative ability in developing new businesses, including internet financing (pg16). We revised up our mid-term growth assumption for BoCom to factor in impact from reforms (pg21) and slightly increased TP.

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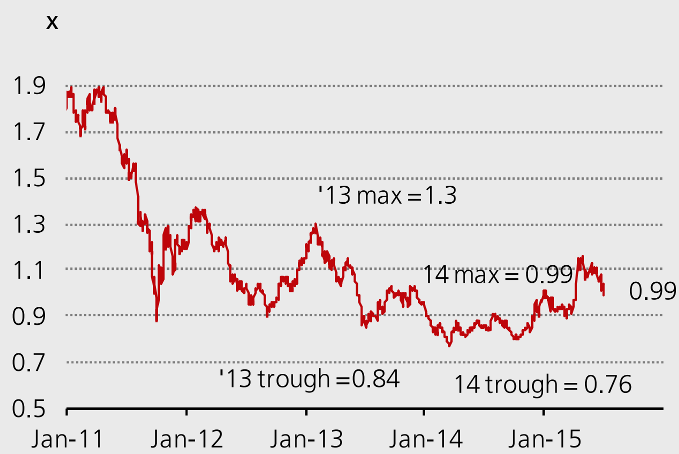
Top picks

	Closing price (Lcl$)	FY15F PBV (X)	FY15F PER (X)	FY15F yield (%)	FY15F ROE (%)	Target Price (Lcl$)	Stock rating
A-share							
CMB (600036)	18.82	1.29	7.6	4.0	18.3	23.42	Buy
ICBC (601398)	5.79	1.21	7.3	4.6	17.4	6.37	Buy
H-share							
Citic Bank (998)	5.97	0.74	5.4	5.5	14.6	8.31	Buy
BoCom (3328)	7.68	0.87	6.8	4.6	13.4	9.34	Buy

Source: Bloomberg Finance L.P., DBS Vickers

Based on closing prices on 6-Jul-15.

Sector average P/BV



Source: Thomson Reuters, DBS Vickers

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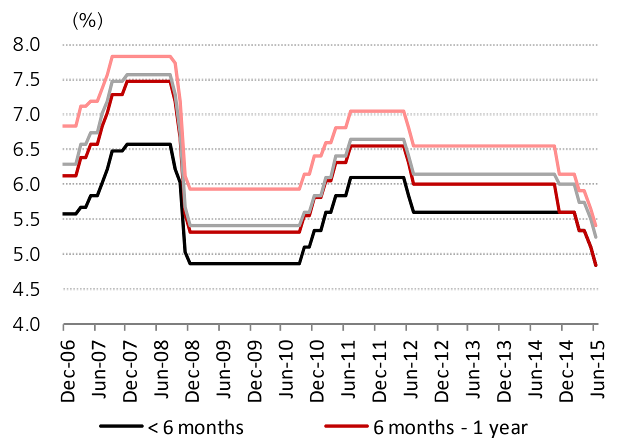
Macro: Still room to use monetary tools to boost economic growth

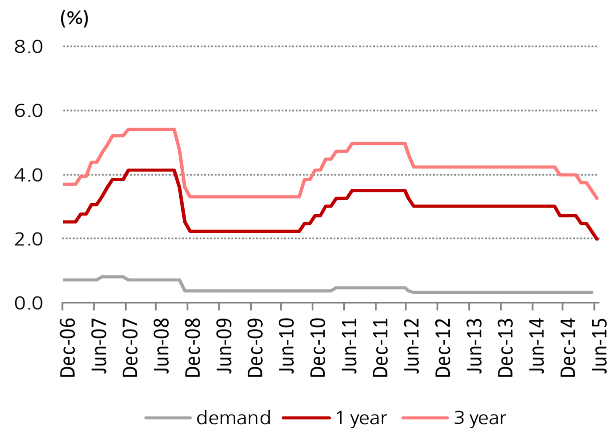
While US and Europe have run out of QE tools, China still has ample room to loosen its monetary and fiscal policies to support its economy.

Benchmark rate at record low. PBOC cut its 1-year lending benchmark rate to a record low of 4.85% on 28-Jun-15, the fourth reduction since Nov-14, and 1-year deposit rate was cut to 2%. The rate cuts are aimed at reducing funding cost for the real economy and financial institutions, and to stabilise economic growth during economic restructuring. The move confirms that PBOC will continue to adopt a monetary loosening policy to support economic growth and the A-share market. According to PBOC, positive macroeconomic indicators in May imply that economic growth will bottom out in 3Q15.

PBOC policy lending rates

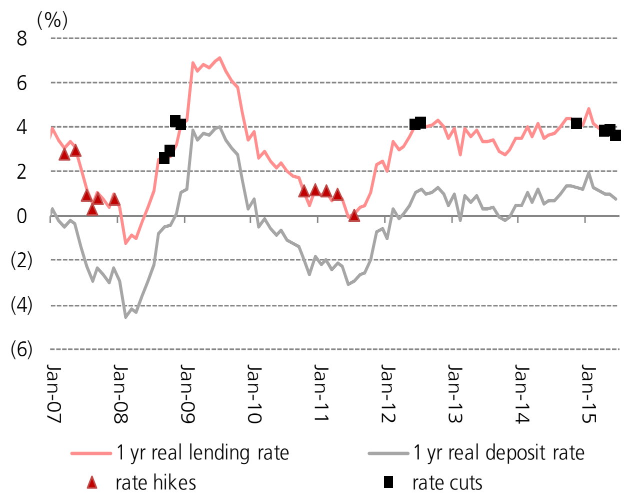


PBOC policy deposit rates

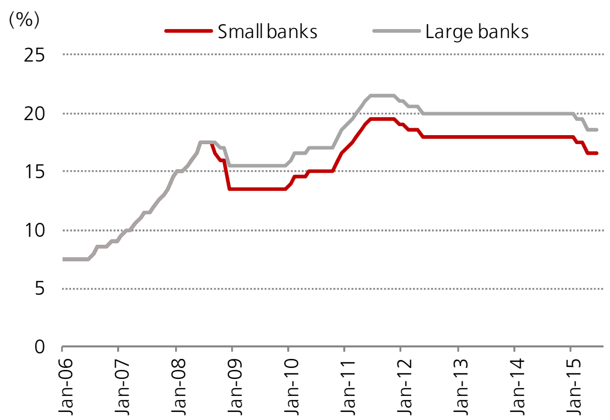


Source: PBOC, Wind, DBS Vickers

Real interest rates



RRR



Sources: PBOC, National Bureau of Statistics of China, DBS Vickers

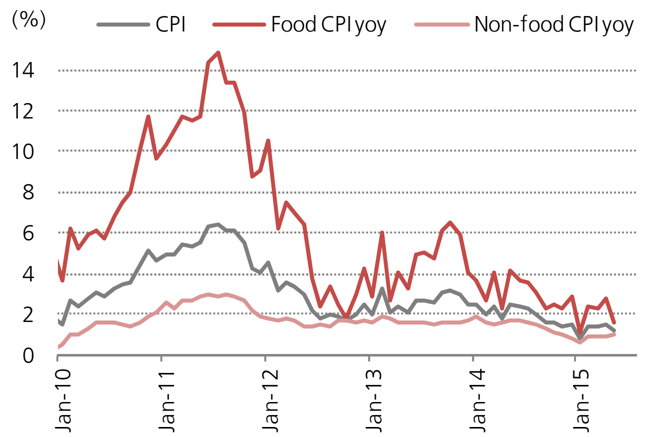
More room to cut RRR. PBOC also reduced RRR for qualified lenders (with higher exposure to SME and agricultural loans) by 50bps on 28-Jun-15. Besides targeted RRR cuts, PBOC has cut RRR three times since Nov-15. But we believe there is still room for further cuts as China's RRR is still much higher than other developed economies.

RRR comparison: China's is much higher than most developed economies

Country	RRR (%)	Note
Lebanon	30.0	
Suriname	25.0	Down from 27%, effective from 01-Jan-07
Nigeria	20.0	Raised from 15.00. Effective from 25-Nov-14
Brazil	20.0	Up from 15%, effective from 06-Dec-10 - Ratio is for requirement on term deposits
Tajikistan	20.0	
China	18.5	China cuts bank reserves again to counter slowdown on 20-Apr-15
Costa Rica	15.0	
Malawi	15.0	
Croatia	14.0	Down from 17%, effective from 14-Jan-09
Mexico	10.5	
Romania	10.0	As of 30-Jan-13 for lei. And 16% for foreign currency
Ghana	9.0	
Israel	9.0	The Required Reserve Ratio is called Minimum Capital Ratio
Turkey	8.5	Since 19-Feb-13
Burundi	8.5	
Jordan	8.0	
Zambia	8.0	
Sri Lanka	8.0	With effect from 29-Apr-11. 8% of total rupee deposit liabilities
Taiwan	7.0	
Bangladesh	6.0	Raised from 5.50. Effective from 15-Dec-10
Lithuania	6.0	
Pakistan	5.0	Since 01-Nov-08
Nepal	5.0	From the monetary policy announcement for FY 2011/12 CRR reduced from 5.5% to 5%
Chile	4.5	
Russia	4.0	Effective 01-Apr-11,, up from 2.5% in Jan-11
India	4.0	Jan-13, as per RBI
Poland	3.5	As of 31-Dec-10
Latvia	3.0	Just after the Parex Bank bailout (24-Dec-08)
South Africa	2.5	
Switzerland	2.5	
Czech Republic	2.0	Since 07-Oct-09
Hungary	2.0	Since Nov-08
Eurozone	1.0	Effective 18-Jan-12. Down from 2% since Jan-99
Australia	None	Statutory Reserve Deposits abolished in 1988, replaced with 1% Non-callable Deposits
New Zealand	None	1999
Sweden	None	
Hong Kong	None	

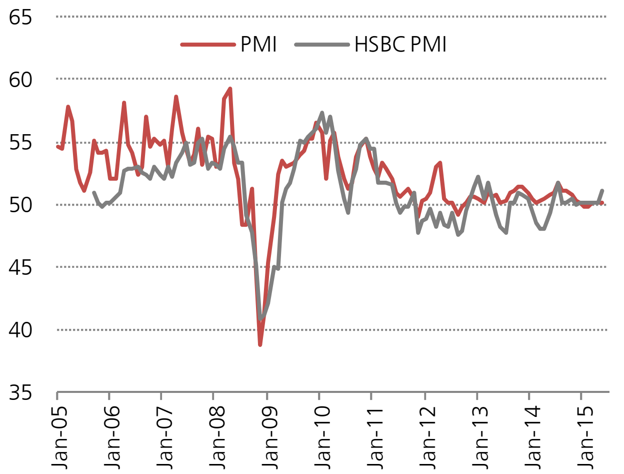
Source: Wikipedia, PBOC, DBS Vickers

CPI



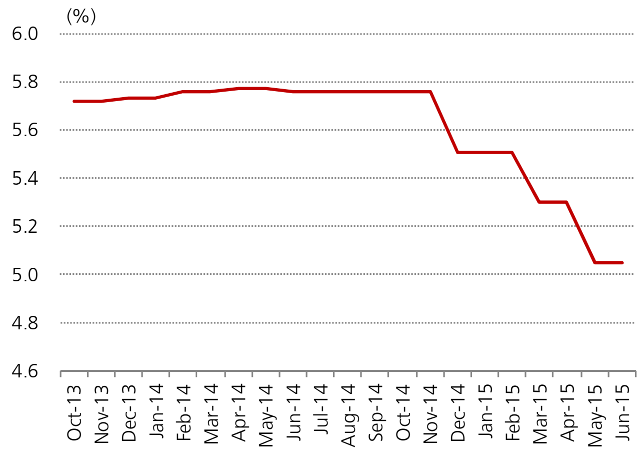
Sources: NBS, Wind, DBS Vickers

Official & HSBC PMI



No further pressure on banks' NIM and earnings. As we mentioned in our recent rate cut comments, we expect no pressure on banks' NIM and earnings as 1) most new loans are priced above benchmark rates, and loan prime rate declined less than benchmark lending rate; 2) banks' funding cost will drop due to cut in time deposit rates especially for SOE banks; and 3) RRR cut will help NIM due to lower interbank funding cost and higher interest rates earned by released funds.

Loan prime rate (1-year)



Source: PBOC, DBS Vickers

Banks deposit rates on 28-Jun-15 after rate cut

	Demand	Time deposit					
		3 mon	6 mon	1yr	2yr	3yr	5yr
Benchmark rate	0.350	1.600	1.800	2.000	2.600	3.250	n.a.
SOE banks							
Postal Saving Bank	0.350	1.850	2.060	2.250	2.750	3.250	3.250
ICBC	0.350	1.850	2.050	2.250	2.750	3.250	3.350
ABC	0.350	1.850	2.050	2.250	2.750	3.250	3.350
BOC	0.350	1.850	2.050	2.250	2.750	3.250	3.350
BoCom	0.350	1.850	2.050	2.250	2.750	3.250	3.350
CCB	0.350	1.850	2.050	2.250	2.750	3.250	3.350
Joint stock banks							
CMB	0.350	1.850	2.050	2.250	2.750	3.250	3.350
GF Bank	0.350	2.050	2.250	2.500	2.900	3.600	3.750
SPDB	0.385	2.000	2.250	2.500	2.900	3.500	3.600
Huaxia Bank	0.385	2.000	2.250	2.500	2.900	3.600	3.750
Industrial Bank	0.385	2.000	2.250	2.500	3.100	3.600	3.600
PingAn Bank	0.385	2.000	2.250	2.500	3.000	3.500	3.500
Evergrowing Bank	0.385	1.970	2.210	2.450	3.170	3.950	3.950
Bohai Bank	0.385	1.970	2.210	2.450	3.120	3.900	3.500
Zheshang Bank	0.350	2.000	2.250	2.500	3.250	3.750	4.000
City commercial banks							
Bank of Ningbo	0.350	2.000	2.250	2.650	3.250	4.050	4.250
Bank of Nanjing	0.350	2.080	2.340	2.580	3.276	4.095	4.500
Bank of Hangzhou	0.385	2.160	2.430	2.700	3.380	4.225	4.500
Bank of Beijing	0.420	2.060	2.310	2.500	2.860	3.250	3.500
Bank of Jiangsu	0.350	1.850	2.050	2.250	2.850	3.500	n.a.
Huishang Bank	0.420	2.170	2.420	2.660	3.390	4.170	4.750
Harbin Bank	0.420	2.250	2.550	3.000	3.500	4.500	5.000

Source: Companies, media report, DBS Vickers

Other tools to adjust liquidity. PBOC may also conduct Standing Lending Facility (SLF), Mid-term Lending Facility (MLF) and Ledged Supplementary Lending (PSL) to inject liquidity and guide interest rates when needed. PBOC issued Rmb130bn 6-month MLF first in June instead of 3-month MLF previously. The rate was 3.35%, lower than the 3.5% in May. PBOC also lent Rmb157.6bn to China Development Bank (CDB) at 3.1% under PSL in June. The rate was much lower than the 4.5% in Apr.

PBOC liquidity support other than universal RRR cut

Date	Type	Amount (Rmb bn)	Targeted institutions/industries
2014			
5-Mar	Relending	20	Rural development
25-Apr	50-bp RRR cut	100-200	Qualified rural cooperative banks at county level
25-Apr	200-bp RRR cut		Qualified rural banks at county level
16-Jun	50-bp RRR cut	60-70	Qualified financial institutions focusing on with agriculture or SMEs
2Q14	PSL	1,000	China Development Bank
8-Aug	Rediscount	12	Rural development and micro business
27-Aug	Relending	20	Rural development
17-Sep	MLF @ 3.5%	500	To Big 5 banks, 3-month duration
17-Oct	MLF @ 3.5%	270	Joint-stock banks, city commercial banks and rural commercial banks For small lending only, 3-month duration
13-Nov	MLF @ 3.5%	50-100	City commercial banks For small lending only
17-Dec	MLF @ 3.5%	350	Renewed MLF to Big 5 banks
2015			
13-Jan	MLF @ 3.5%	320	Renewed Rmb270bn MLF to smaller banks, added Rmb50bn new funding
16-Jan	Re-lending	50	Rural development (Rmb20bn) and micro lending (Rmb30bn)
17-Mar	MLF	450-500	Renewed Dec-17 MLF and added more funding
27-Jun	MLF @ 3.35%	130+	Renewed Mar MLF at lower rate & longer duration (6 months vs 3 months previously)
28-Jun	50-bp RRR cut	300-450	1) Qualified rural commercial banks at non-county level or city commercial bank with certain Sannong exposure 2) Qualified SOE, JSB and foreign banks meet certain Sannong or SME loan exposure
28-Jun	3-ppt RRR cut	70	Financial companies

Source: PBOC, DBS Vickers estimates

Local government's debt concerns now eased by debt swap programme

What is local government's debt swap programme?

- Following the announcement of Circular 43, MOF granted Rmb1tn quota for local governments to convert local government financing vehicles (LGFV) debts into municipal bonds in Mar-15 and another Rmb1tn in Jun. In total, local governments are allowed to issue Rmb2tn bonds to replace their current debts scheduled to expire by end-2015 that are mainly bank loans.

Why did the central government and regulators launch the programme?

- It will be hard to control local government budget if local governments keep increasing borrowings from banks and financial institutions, which will cause long-term risks. LGFVs has been mushrooming since 2008 when the central government launched a Rmb4tn stimulus package under the GFC, becoming a big concern for the central government. In 2013, the National Audit Office conducted the first national audit on local government borrowings and found Rmb17.9tn debt, of which Rmb10tn are bank loans. The State Council issued Circular 43 in Sep-14 to regulate local government borrowing.

- According to Circular 43, from 2016 onwards, all government-funded projects will need to be financed by municipal bonds issued by local governments at provincial level, and no longer through LGFVs. Local governments have to provide details for bond issuance, which will increase the transparency. Local government debts cannot exceed the approved quota and will be included in fiscal budget planning, according to the rule.

- Banks have lent too much to the local government, while they are expected to support the new economy and economic restructuring.

Why do local governments want to swap?

- Current local government borrowings usually bear a high borrowing cost (5-8%) with relatively short maturity (2-3 years).

- Debt: low cost (2.8-3.5%) & long-term (3-10yrs).

Why do banks want to swap?

- Local government bonds are less risky given more transparent project disclosure and detailed cash flow coverage plan.

- The weight of local government bond is 25% when calculating risk-weighted assets while the weight of loan is 100%. Banks can increase their RORWA by local government bond purchase instead of local government lending.

- Local government bond can be used as collateral for cash borrowing from the central bank under the PSL framework.

- Banks want to get fiscal deposits from local governments. Whether a bank has bought local government bonds is a key prerequisite when the local government is considering deposit saving.

- Theoretically, banks can save provision charge as local government bonds are deemed as low risk investment while they have to book at least 1% provision charge for loans made to local governments. However, we did not factor in credit cost savings in our assumptions as existing LGFV loans carry extremely low NPL ratio.

Earnings and profitability impacts to banks under the debt swap programme – Big 4 and CMB best positioned

Our estimates shows that even without considering local government bond pledges under the PSL programme, the debt swap would only be slightly negative to banks' FY15 earnings, contrary to prevailing concerns that banks will take sizeable losses from such a swap. The banking sector may improve its RoRWA by 2bps as local government bonds carry a much lower risk weighting. Earnings impacts to Big 4 banks are marginal, given they have limited non-standard credit asset exposure and thus are less susceptible. In terms of profitability improvement, we find that CMB will see more RoRWA improvement.

If municipal bonds are qualified collateral under PSL programme (assume 50% pledge rate), earnings impact to the sector will be nil and RoRWA improvement will expand slightly to 3bps.

Local government debt swap's impact on earnings and profitability

Base case										
Local gov't debt size at banks (Dec 2014)	ICBC	CCB	BOC	ABC	BoCom	CMB	Citic	Minsheng	CQRCB	China Banking Sector (E)
(Rmb bn)										
LGFV loan	464	346	350	334	203	114	154	na	25	11,717
LGFV borrowing booked under NSCA	1	-	31	52	66	95	128	53	13	2,343
Total local gov't debt exposure	465	346	381	386	269	209	282	na	38	14,060
Local gov't debt to expire by end of 2015	139	104	114	116	81	63	85	na	11	1,858
Local govt debt swap - interest income chg										
Current LGFV loan yield (%)	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Tax adjusted local gov't bond yield (%)	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%
Interest income loss	(1.7)	(1.3)	(1.4)	(1.4)	(1.0)	(0.8)	(1.0)	na	(0.1)	(22.9)
Redeployment of released capital										
Interest income from new loan	0.5	0.4	0.4	0.4	0.3	0.2	0.3	na	0.0	7.0
Fee income (from bond underwriting)										
Assume 0.15% commission rate	0.2	0.2	0.2	0.2	0.1	0.1	0.1	na	0.0	2.8
Total annual impact to NPAT	(1.0)	(0.7)	(0.8)	(0.8)	(0.6)	(0.4)	(0.6)	na	(0.1)	(13.1)
As % of FY15F net profit	-0.3%	-0.3%	-0.5%	-0.5%	-0.9%	-0.7%	-1.4%	na	-1.1%	-0.8%
Profitability impact										
RWA saved	112	83	91	93	65	50	68	na	9	1,486
Adjusted 2015F RoRWA	2.21%	2.21%	1.64%	1.58%	1.53%	2.15%	1.35%	na	1.76%	1.96%
RoRWA change (%)	1.2bps	1.1bps	0.7bps	0.6bps	1.0bps	2.2bps	1.0bps	na	1.9bps	2.0bps
If local govt bond allowed in PSL										
Local gov't debt size at banks (Dec 2014)	ICBC	CCB	BOC	ABC	BoCom	CMB	Citic	Minsheng	CQRCB	China Banking Sector (E)
New funding assuming 50% pledge	70	52	57	58	40	31	42	na	6	929
PSL cost @ 3%	(2.1)	(1.6)	(1.7)	(1.7)	(1.2)	(0.9)	(1.3)	na	(0.2)	(27.9)
Interest income	3.8	2.8	3.1	3.1	2.2	1.7	2.3	na	0.3	50.2
Credit cost	(0.7)	(0.5)	(0.6)	(0.6)	(0.4)	(0.3)	(0.4)	na	(0.1)	(9.3)
Net earnings impact	1.0	0.7	0.8	0.8	0.6	0.4	0.6	-	0.1	13.0
Total earnings impact	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	na	(0.0)	(0.1)
As % of FY15F net profit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	na	0.0%	0.0%
Profitability impact										
RWA saved	42	31	34	35	24	19	25	na	3	557
Adjusted 2015F RoRWA	2.21%	2.21%	1.65%	1.59%	1.54%	2.16%	1.37%	na	1.78%	1.97%
RoRWA change (%)	1.5bps	1.4bps	1.3bps	1.2bps	2.1bps	2.9bps	3.0bps	na	3.2bps	3.0bps

Source: Companies, CBRC, PBOC, NAO, DBS Vickers estimates

NPL trends up but to stabilise at 2% in 2016-2017

NPL formation surge to slow down. As we mentioned in our 1Q15 results recap, most banks reported a decline in NPL formation ratio in 1Q15 compared to 2H14. China's NPL ratio has been rising since 2013 due to economic growth slowdown and economic restructuring. NPL ratio surged in the manufacturing sector, mainly driven by industries with overcapacity issues, and in wholesale and retail sectors due to export slowdown, SME default, steel trading fraud, and loan shark-related issues. But banks have been cautious and have largely cut loans to companies with these issues. In the long run, the local government debt swap programme and local government budget restriction have largely eased the concerns. We expect the increase in NPL formation ratio to decelerate y-o-y in 2H15 as economic growth bottoms out, and NPL ratio to stabilise at 2% in late 2016 to 2017.

NPL formation ratio (annualised) declined in 1Q15

d	4Q13	1Q14	2Q14	3Q14	4Q14	2H14	1Q15	y-o-y	Vs. 2H14
ICBC	0.41%	0.60%	0.41%	0.74%	0.95%	0.85%	1.33%	74bps	48bps
CCB	0.57%	0.44%	0.66%	0.74%	1.10%	0.93%	0.93%	48bps	0bps
BOC	0.55%	0.42%	1.43%	0.67%	1.43%	0.78%	1.11%	69bps	32bps
ABC	0.27%	0.36%	0.88%	0.67%	1.65%	1.18%	0.89%	53bps	-29bps
BoCom	0.54%	0.48%	0.59%	0.62%	1.31%	0.97%	0.61%	13bps	-37bps
CMB	0.47%	0.81%	1.10%	1.17%	1.13%	1.15%	1.54%	72bps	38bps
CITIC	1.09%	0.94%	0.97%	1.05%	1.27%	1.16%	0.78%	-16bps	-39bps
Minsheng	1.53%	0.74%	1.81%	1.46%	1.99%	1.75%	1.14%	41bps	-61bps
CQRCB	0.92%	-0.42%	0.85%	0.22%	1.01%	0.63%	0.17%	59bps	-47bps
Big-4	0.45%	0.46%	0.85%	0.70%	1.28%	0.94%	1.06%	61bps	13bps
SOE banks	0.47%	0.46%	0.79%	0.69%	1.29%	0.94%	0.97%	51bps	3bps
JS banks	1.03%	0.83%	1.29%	1.23%	1.46%	1.36%	1.15%	32bps	-20bps
National	0.68%	0.60%	0.98%	0.89%	1.35%	1.10%	1.04%	44bps	-6bps
All covered	0.71%	0.49%	0.97%	0.81%	1.32%	1.05%	0.94%	46bps	-10bps

Note: NPL formation ratio (annualised) is to measure real NPL increase adding back disposals and write-offs. We use 2H14 NPL formation ratio to exclude seasonal factors. Banks usually allocate more NPL disposal by year-end which inflates our calculated NPL formation ratio
Source: Companies, DBS Vickers estimates

Banks to accelerate NPL disposal. Banks are encouraged to speed up NPL write-offs and disposals, as regulators has relaxed NPL write-off restrictions and simplified the NPL write-off procedure. This will help banks to lower NPL ratio and increase NPL coverage, given current high provision-to-loan ratio. Previously, only the Big 4 national asset management companies (Great Wall, Cinda, Huarong and Orient) were allowed to help banks with NPL disposals since China SOE banks' restructuring in 2004-2005. In Jul-14, China's banking regulator allowed five provincial governments to set up asset management firms to buy NPLs from financial institutions. Shanghai, Guangdong, Zhejiang, Jiangsu and Anhui provinces are included in this trial programme. Recently, Wenzhou City is also applying to set up an "NPL bank". Besides asset management firms, trust firms are also involved in NPL collection. Today, banks and asset management firms also use the internet platform to sell NPL. Cinda Asset Management has sold Rmb172.4m of debt and NPL packages on the Taobao platform in 2Q15, according to our calculation.

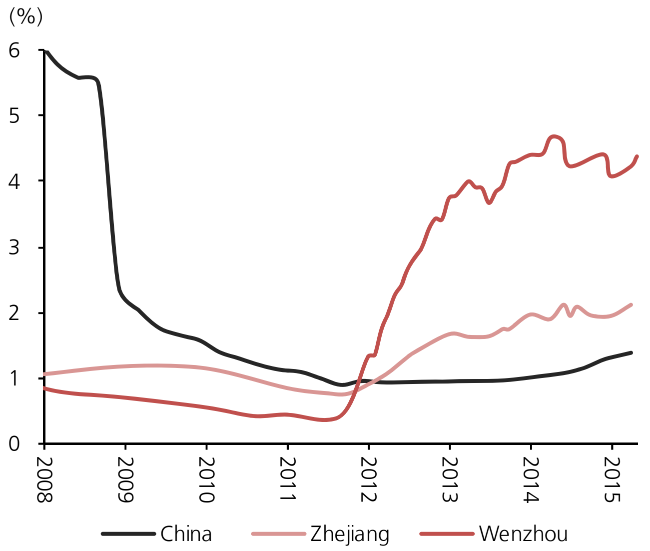
Provision to loan ratio

	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	y-o-y	q-o-q
ICBC	2.43%	2.38%	2.36%	2.30%	2.34%	2.32%	-6bps	-2bps
CCB	2.66%	2.65%	2.59%	2.64%	2.66%	2.69%	4bps	3bps
BOC	2.21%	2.23%	2.21%	2.23%	2.22%	2.22%	-2bps	-1bps
ABC	4.46%	4.41%	4.31%	4.33%	4.42%	4.42%	0bps	-1bps
BoCom	2.24%	2.31%	2.30%	2.36%	2.24%	2.25%	-6bps	1bps
CMB	2.22%	2.27%	2.46%	2.51%	2.59%	2.78%	51bps	19bps
CITIC	2.13%	2.21%	2.30%	2.51%	2.36%	2.48%	26bps	12bps
Minsheng	2.21%	2.22%	2.01%	2.07%	2.12%	2.20%	-2bps	8bps
CQRCB	3.46%	3.45%	3.55%	3.60%	3.58%	3.54%	10bps	-4bps
Big-4	2.94%	2.92%	2.87%	2.88%	2.91%	2.91%	-1bps	0bps
SOE banks	2.80%	2.80%	2.76%	2.78%	2.78%	2.78%	-2bps	0bps
JS banks	2.19%	2.23%	2.26%	2.36%	2.36%	2.49%	25bps	13bps
National	2.57%	2.59%	2.57%	2.62%	2.62%	2.67%	8bps	5bps
All covered	2.67%	2.68%	2.68%	2.73%	2.73%	2.77%	8bps	4bps

Source: Companies, DBS Vickers estimates

Joint-stock banks to face less pressure on asset quality due to three reasons: 1) Joint-stock banks have larger exposures to coastal areas. NPLs in coastal areas are likely to stabilise after a two-year surge. Zhejiang Province and Wenzhou City reported lower NPL ratios in 4Q14; 2) Joint-stock banks are more flexible in adjusting the structure of their loan books. They mainly deal with private companies and can easily cut loans to problematic companies; and 3) Joint-stock banks have stronger PPOP growth, and have better ability to make provisions. CMB and CITIC Bank largely improved their provision buffers by increasing credit cost.

NPL ratios of China, Zhejiang and Wenzhou



Note: Wenzhou is a city in Zhejiang Province. Zhejiang is the largest province in Yangtze River Delta in China's east costal area
Source: CBRC, Various media reports, DBS Vickers compiled

Long-term driver: Mixed-ownership reforms

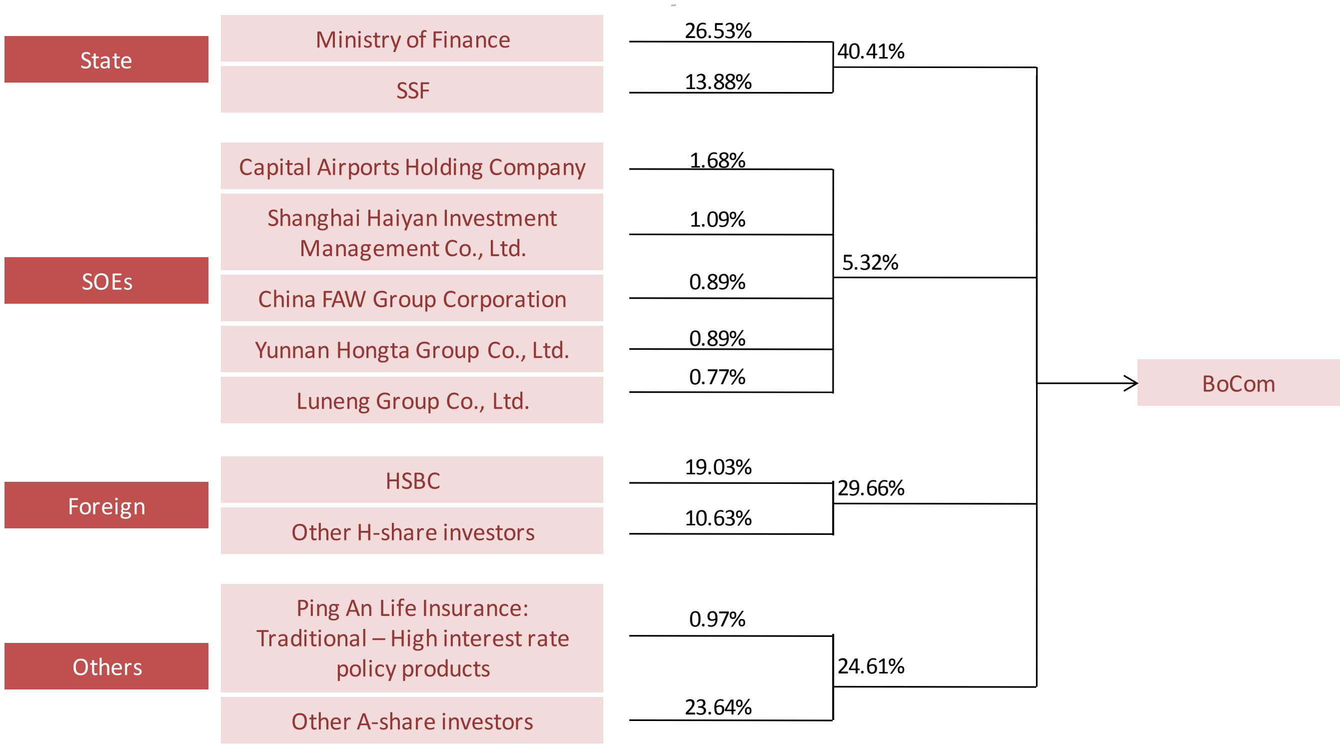
BoCom was the first commercial bank to start the mixed ownership reform following the approval by State Council of its reform plan on 16-Jun-15. BoCom already has diversified ownership as it first introduced foreign capital between 2003 and 2004. Besides BoCom, more than 20 China banks also introduced foreign banks as strategic partners from 1996-2008. BoCom has learnt credit card management, risk management, and internal auditing from HSBC. However, HSBC only held 19% of BoCom's total shares, and 40.41% of BoCom was state-owned as at end of Mar-15. This results in restrictions in management appointment, employee stock ownership plan (ESOP), decision-making autonomy, and internal structure. HSBC may be allowed to increase shareholding after the reform, and BoCom is also considering introducing private capital.

Foreign investors' investments in China banks

Domestic Bank	Foreign Investors	Amount	Shareholding	Year
CEB	Asian Development Bank	US$19m	3.59%	01-Jan-96
	IFC	US$55.1m	7%	01-Dec-99
Bank of Shanghai	HSBC Holdings	US$63m	8%	01-Dec-01
	Shanghai Commercial Bank	US$23.6m	3%	01-Dec-01
Bank of Nanjing	IFC	US$27m	15%	01-Nov-01
	BNP Paribas	US$87m	19.20%	13-Oct-05
SPDB	Citigroup	US$67m	4.62%	01-Dec-02
	Hang Seng Bank	Rmb1,725m	15.98%	01-Dec-03
Industrial Bank	Government of Singapore	Rmb540m	5%	01-Dec-03
	IFC	Rmb432m	4%	01-Dec-03
BoCom	HSBC Holdings	US$174.7bn	19.90%	01-Aug-04
	IFC	n.a.	2.50%	01-Oct-04
Bank of Xi'an	Scotiabank	n.a.	2.50%	01-Oct-04
	Scotiabank	US$155m	14.77%	01-Jan-10
Qilu Bank	CBA	n.a.	11%	01-Nov-04
Minsheng	IFC	US$25m	1.08%	01-Nov-04
	Tamesek	Rmb1.2bn	4.55%	01-Nov-04
Pingan Bank	New Bridge Capital	Rmb1.5bn	17.89%	01-Dec-04
Bohai Bank	Standard Chartered Bank	US$123m	19.99%	01-Dec-04
Bank of Beijing	IFC	Rmb420m	5%	25-Mar-05
	ING Bank	Rmb1.78bn	19.90%	25-Mar-05
Bank of Hangzhou	CBA	Rmb625m	19.90%	01-Apr-05
CCB	Bank of America	US$2.5bn	9.10%	01-Jun-05
	Tamesek	US$1.4bn	5.10%	01-Jul-05
Nanchong City Commercial Bank	DEG	EUR3m	10.00%	08-Jul-05
	SIDT	EUR1m	3.30%	08-Jul-05
BOC	RBS China	US$3.048bn	9.61%	20-Aug-05
	Singapore's Temasek Holdings	US$1.52bn	4.8%	20-Aug-05
	Asian Development Bank	US$73.74m	0.23%	01-Oct-05
	UBS AG	US$491.57m	1.55%	01-Sep-05
Bank of Ningbo	UOB	Rmb570m	12.20%	01-Jan-06
ICBC	Goldman Sachs	US$2.58bn	5.75%	28-Apr-06
	Allianz	EUR824.7m	2.25%	28-Apr-06
	American Express	US$200m	0.45%	28-Apr-06
Huaxia Bank	Deutsche Bank	US$330m	13.98%	01-May-06
Guangfa Bank	Citigroup	Rmb5.67bn	19.99%	18-Nov-06
	IBM Credit	n.a.	4.74%	18-Nov-06
Yantai Bank	Heng Sang Bank	Rmb800m	19.99%	31-Jan-08
	Wing Lung Bank	Rmb200m	4.99%	31-Jan-08
Bank of Yingkou	CIMB Bank	Rmb350m	19.99%	21-Mar-08

Source: Various media reports, DBS Vickers compiled

BoCom's shareholding structure: Already diversified



Note: as of end-1Q15
Source: Companies, DBS calculated

Changes in internal structures, systems and corporate governance will make a difference. Introducing another foreign or private investor itself may not make much difference as HSBC has been invested in BoCom for a long time. But BoCom's reform plan includes not only improving ownership structure, but also introducing private capital, establishing a management and employee stock ownership plan, pushing forward multi-divisional reforms, and setting up a market-oriented compensation system. A market-oriented compensation and profit-driven decision-making system, if realised, will largely help efficiency and profitability, according to China's experience in other sectors. The current average compensation for SOE bank employees is much lower than joint-stock banks, resulting in loss of talents.

Employee stock ownership plan (ESOP) to align interests. The State Council had allowed listed companies to conduct ESOPs in May-14. The shares can be from treasury stocks, secondary market purchases, private placements or shareholders' donations. CSRC stipulated that the total stock held by employees in an ESOP shall not exceed 10% of the company's total capital stock (the total stock owned by an individual employee shall not exceed 1%). Other regulations govern the lock-up period for stocks (12 months), the minimum period over which stocks may be held by employees (36 months), as well as the company's responsibility to periodically disclose employee stock ownership. The ESOP can largely enhance employee incentive, and it can help the company to push forward internal reforms.

Central China Securities (CCSC) is a successful example for ESOP. The company launched its ESOP during its H-share IPO, and employees purchased more than 10% of total shares via a dedicated QDII fund due to less-than-expected IPO subscription. The company then conducted a series of internal reforms after the IPO in Jun-14, including market-driven compensation and competitive employment. For example, all mid-level managers are assessed every two years and will face competition from potential candidates. CCSC reported strong earnings growth in 3Q14-1Q15 and its share price has more than doubled in the past one year.

Minsheng, CMB, and Bank of Beijing have announced their ESOPs; BoCom, CCB, BOC and ABC have indicated their interest in introducing similar plans. Minsheng announced its ESOP in Nov-14, but this is still under discussion. Meanwhile, CMB launched its ESOP on 19-Jun-15. Employees are allowed to purchase Rmb6bn shares in 2015, and another Rmb4bn in the next four years. CMB has been more aggressive since the new president Tian Huiyu came on board. The more profit-driven performance evaluation system brought about investors' concerns on employees' potential short-sighted behaviour. This employee stock incentive programme, covering 8,500 mid- to high-level management with a 3-year lock-up period, will largely align employees' interest with shareholders', and improve the company's mid- to long-term incentives.

Multi-divisional reforms to boost efficiency and profitability. Bank-established profit centres are independent business lines, to forge more specialised management teams at head office levels, and to adopt more independent financial accounting for each business line. Minsheng was the first bank that conducted multi-divisional reforms in Sep-07. It set up four corporate finance divisions, six industry divisions, and ten profit centres. The reform helped to boost profits from 2009-2012, but it also caused short-sighted problems and excessive internal competition. Minsheng is working on consolidating divisions and setting up its incentive mechanism to overcome these problems. On the other side, BoCom and ICBC also conducted similar reforms, but the bottleneck is the semi-government official system that does not provide fair and attractive compensation for talents. Mixed-ownership reforms will also help to solve the issue.

Progress of listed banks' multi-divisional reform

	ICBC	CCB	ABC	BOC	BoCom	CMB	SPDB	Minsheng	CITIC	CEB	Ping An	Huaxia	BOBJ	CQRCB	HSB	BONJ	Harbin
WMP/AMP	√				√					√	√		√			√	√
Investment Bank	√				√						√						
Asset Custody	√				√						√						
Pension	√																
Financial Market/Interbank	√				√			√		√	√						
Bills	√				√				√		√						
Precious Metal	√				√												
Offshore/Trade Finance					√			√			√						
Real Estate, Energy, Transportation & other industries								√			√						
Agricultural & Food Finance			√					√			√						√
Small Micro, Community and Consumer Finance	√							√			√		√				√
Credit Card Centre	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
Personal Banking					√			√			√						
Internet Finance											√						√
Finance to Russia																	√
Special Finance	√																

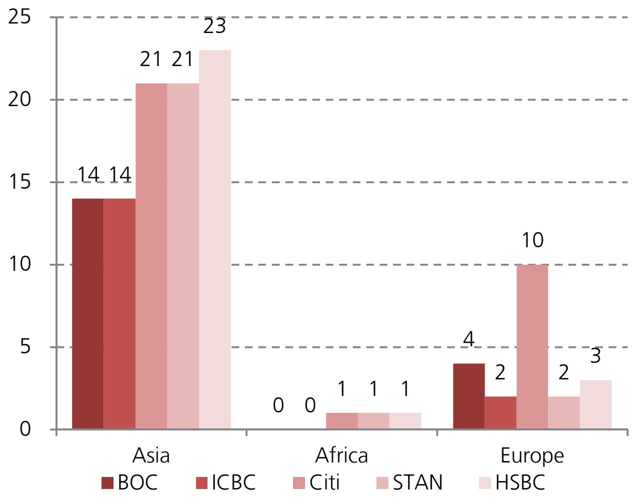
Source: Companies, Listed Banks in China 2014 review and outlook by EY, DBS Vickers

Long-term driver: Potential overseas expansion boosted by One-Belt-One-Road Plan

Huge capital demand. The proposed One-Belt-One-Road Plan is mainly supporting infrastructure networks in Asia, Europe and North Africa. The Asian Development Bank estimates infrastructure investment demand in the region at US$730bn annually for the next 10 years. China has proposed initial registered capital of US$100bn, US$40bn and US$100n for AIIB, Silk Road Fund and BRICS Development Bank respectively to support regional funding needs. China's commercial banks should also expand in the region and cooperate closely with these international institutions.

Lower-than-global-peers coverage in the region. China banks' coverage in the region of the One-Belt-One-Road Plan is much lower than global banks. As China's foreign trade with 64 countries is expected to top US$2.5tn in the next 10 years, up from less than US$1tn in 2014, China banks will likely expand overseas together with their clients.

No. of countries covered by banks



Source: Company, DBS Vickers

To fasten banks' loan growth and fee income. China banks will benefit from the One-Belt-One-Road Plan in four areas: 1) Increasing new loan demand: China banks are expected to provide credit support (e.g. syndicated loan, trading finance) together with international financial institutions for infrastructure projects, direct investments, cross-border ordering and trading, forfeiting, and commodity financing; 2) Financial advisory and investment banking opportunities; there should be increasing M&A and equity-raising deals; 3) Cross-border cash management and financial solutions; as banks' clients are expanding their overseas businesses, China banks will see increasing demand for cross-border cash management, financing guarantees, and foreign exchange hedging.

Challenges for China banks. Considerable time is needed to finally construct project after the conclusion of successful negotiations with governments and related parties. It will take even more time for banks to enjoy the returns from their investments as the maturity periods of most infrastructure projects are quite long. The potential investment return will be hard to determine due to the free rider problem prevalent in infrastructure projects. Payment methods can vary as some projects may be paid for with commodities.

Banks are well prepared for trend towards Internet financing

Banks are embracing the digital era. Common belief is that new internet players may increase challenges faced by banks in three key areas - third party payments/payment habits, online mutual market funds, and online lending. However, we find that the disruption may be much milder than expected given that banks are already embracing the internet trend. However, banks with unique branch network advantages such as ABC, and rural banks may see their advantages erode. Small city commercial banks are also potential losers given their limited IT capacity and investment in infrastructure.

We will compare banks' internet strategy and development, focusing on organisational structure, mobile apps, direct banking, E-commerce, online lending vs private banks that have been set up by internet giants to determine which banks are better positioned for the internet era.

In summary, we believe **ICBC and CMB are ahead in the digital race.**

ICBC: In Mar 2015, ICBC launched its Internet finance brand "e-ICBC" that combines the bank's existing e-commerce business, product direct-selling units, and instant communications, to become the first commercial bank to promote an internet finance brand in China. ICBC's Internet financial strategy is made up of 3 platforms, namely e-commerce "Rong-e-gou", instant messaging "Rong-e-lian" and direct bank "Rong-e-hang", and 3 major product lines, including payment, financing and investment. We believe ICBC will stand out in the longer term given its advantages in its vast user base and strong war chest for technology investment. ICBC still dominates in the mobile segment with a higher percentage of frequent users among all commercial banks according to Iresearch in 2013.

CMB has been a pioneer in the use of technical innovation and IT to compete in the rapidly changing banking environment. Backed by more advanced IT technology and unified platform, the bank introduced an "all-in-one" card in 1995, which integrates its financial products. This laid a solid foundation for CMB's retail banking business and enabled CMB to be ranked first among China's joint stock banks and sixth among all China's commercial banks today. In 2012, the bank started to build its own Big Data platform based on cloud computing systems at a time when Big Data was a relatively new concept. Now, the bank is striving to establish an overall structure for Internet finance featuring "platform, flow and big data" to promote the transformation of its business model to be more network-oriented. We believe CMB is well positioned in terms of online platform construction, with mobile finance platform, the Small Business E Home platform, the smart supply chain platform and the Banking E-Tong platform covering retail finance, corporate finance and financial institutions. CMB is also the most frequently used bank in WeChat.

Organisational structure: Most of the listed banks have set up or upgraded their internet finance department. The Big 4 banks have all set up or upgraded their e-banking departments to include internet finance in 2014. Some JSBs were more farsighted by doing the same in 2H13, like Ping An Bank and Guangfa Bank.

Mobile apps: Mobile migration already gaining traction for some banks. Most of the listed SOE banks and JSBs have launched mobile apps with comprehensive functions. Leading banks have 30-45% of customers that have already tried mobile banking and frequent user proportion is ~20% for ICBC and 17-18% each for CCB and CMB. This ratio should continue to increase in the future given more updated versions and functions in mobile apps.

Mobile app comparison

Bank	ICBC	CCB	ABC	BoCom	CMB	Minsheng Bank
Mobile banking						
Mobile apps for Android & IoS	Yes	Yes	Yes	Yes	Yes	Yes
Functionality	High - Wealth management, Fund transfers, foreign exchange settlement, mobile stock trading, insurance, mutual fund investment, metal & oil trading, Branch/ATM locator, mobile wallet, ICBC e-commerce	High - Wealth management, Fund transfers, foreign exchange settlement, insurance, mutual fund investment, full credit card service , location-based merchants recommendation, commercial/vacation trip booking, embedded ctrip function, mobile payment, QR code payment, branch reservation, online fine payment	High - Wealth management, fund transfers, mutual fund investment, bond investment, credit card, utility payment, hospital appointment, location-based merchants recommendation, movie ticket, commercial travel planning	High - Wealth management, Fund transfers, mutual fund investment, personal loan application, credit card, utility payment, mobile payment, insurance, stock information, foreign exchange settlement, train/air ticket booking, branch locator, online fine payment	Very high - Wealth management, fund transfers, mutual fund investment, full credit card services, mobile mall, lottery ticket, new and second hand auto e-market, branch locator and reservation, limited offer, commercial travel planning, golf reservation, utility payment	High - Wealth management, direct bank, private bank, fund transfers, mutual fund investment, personal loan application, credit card application, utility payment, mobile payment, , foreign exchange settlement, train/air ticket booking, branch locator/reservation, online mall, commercial trip service
Downloads - android version as of Nov 2014 (BigData)	72mn	96mn	39mn	37mn	36mn	15mn
Downloads - apple app store	unknown	unknown	unknown	unknown	unknown	unknown
Ratings	4+	4+	4+			
Mobile banking users	140mn	174mn	111mn	n.a	36mn	13mn
Decision tools for peer advisory						
Side by side comparison of products	Yes	Yes	Yes	Yes	Yes	Yes
Review rating system	No	No	No	No	No	No
Cross channel delivery						
Account openings	Yes, only if you registered at the counter first	Yes, only if you registered at the counter first	Yes, only if you registered at the counter first	Yes, only if you registered at the counter first	Yes, only if you registered at the counter first	Yes, only if you registered at the counter first
Real time advise and help through multiple channels	Yes	Not mentioned	Not mentioned	No	Not mentioned	Not mentioned
Fully integrated backend	Not mentioned	Not mentioned	Not mentioned	Not mentioned	Yes	Not mentioned
Pesonal financial management						
Location based offers	Yes	Yes	Yes	Yes	Not mentioned	Not mentioned
Targeted promotions	Not mentioned	Not mentioned	Not mentioned	Not mentioned	Not mentioned	Not mentioned

Source: Companies, DBS Vickers

Mobile banking popularity banking services/

Most visited mobile banking Top 10	% othat used mobile banking service	% of frequent users
ICBC	45%	20%
CCB	41%	18%
CMB	31%	17%
ABC	29%	10%
BOC	25%	7%
BoCom	25%	8%
Postal Saving Bank	17%	4%
CEB	10%	3%
Guangfa	10%	3%
Minsheng	9%	2%

Source: Iresearch

E-commerce: **Banks not necessarily losers.** Admittedly, giant e-commerce players such as Alibaba and JD have built up huge online platforms that accommodate tens thousands of merchants and users that banks will not be able to match in the short term (JD: more than 50,000 merchants; T-mall: more than 300,000 merchants). However, banks are catching up with improving payment platforms and user-friendly interfaces. ICBC's e-commerce platform attracted 17m users a year after launch. Moreover, banks are tapping financing opportunities in the entire value chain by closing the loop between manufacturers, merchants, logistics and customers.

E-commerce platform comparison

E-commerce platform	ICBC	CCB	ABC	BoCom
Platform name	Rong e Gou	Shanrong Commerce	E-Shang	JBH online
Online business model	B2B & B2C	B2B & B2C	B2B & B2C	B2B & B2C
Launch time	Jan-14	Jun-12	Apr-13	Aug-12
No. of merchants	5,000	~15,000	~11,000	23,000
No. of registered users	17mn	~8mn	na	na
2014 transaction volume	Rmb160bn (mainly B2B)	Rmb46bn (mainly B2C)	Rmb1.3tn (mainly B2B)	Rmb293bn (mainly B2C)

Source: Companies, DBS Vickers

Online lending: **New private banks are not competitive in the initial stages.** Comparing WEbank's online loan rates and terms with existing loan products from listed banks, we find that banks' products are more attractive in most cases. However, banks usually only offer online loans to existing clients or with collateral to ensure asset quality while WeBank chooses clients from a wider pool based on QQ/Tenpay records, and this may require higher loan rates in the initial stages to cover potential default risks. It may lower loan rates in the future benefit from potential big data analysis.

Online loan offerings

Banks' online loan	ICBC	CCB	CMB	Ping An Bank	WEBank
Launch time	Aug-13	Jan-15	Jan-15	Jun-14	May-15
Product name	Yi Loan	Fast E Loan	Flash Loan	Direct Loan	Particle loan
Platform	Web/phone/mobile app	Web	CMB mobile app	Web/phone/mobile app	Mobile QQ
Loan application process	Auto approval; typical loan granting period within minutes	Auto approval; typical loan granting period within minutes	Auto approval, 7/24 loan services, typical loan granting period within minutes	Manual approval; within 1 day	Auto approval, 7/24 loan services, typical loan granting period within 15 minutes
Loan range (Rmb)	Personal: 50,000 Small business owner: 200,000 -300,000	50,000 - 500,000	300,000-500,000	10,000-500,000	20,000-200,000
Loan term	6-36 months	12 months	1-24 months	12-48 months	5, 10 or 20 months
Annualized loan rate (%)	10% above benchmark rates	~7%	12-18%	20-23%	18.25% now; may differentiate in the future for quality borrowers with 7.2-10.8%

Source: Companies, DBS Vickers

Concern on government's bailout creates entry point for H-share China banks

China outlined a series of actions in the past week to stabilise the stock market and maintain financial stability.

- PBOC liquidity assistance for brokers. PBOC will offer China Securities Finance Corp. (CSFC) liquidity support via multiple ways. China Securities Regulatory Commission (CSRC) will make full use of CSFC, raise money via multiple ways, expand its business scale and strengthen its capability in maintaining market stability. CSFC, which manages the nation's short selling and margin trading activities, increased its capital from Rmb24bn to maintain financial market stability and expand its business.

- Pace of A-share IPOs and re-financing is slowing. IPO approvals would not be suspended, but the number of new shares hitting the stock market would be cut, according to CSRC. 28 companies planning to list on the country's stock exchanges said on 4-Jul-15 that they would suspend their IPO plans. Caixin reported that equity re-financing projects (e.g. private placement) over Rmb5bn have also been suspended.

- Relaxed margin financing rule. The collateral requirement for margin financing has been relaxed and terms for margin loans have been extended to avoid forced selling and deleveraging. CSRC will no longer require brokerages to force liquidation of stocks held by clients with insufficient collateral.

- Lowered stock trading costs. China's two bourses will reduce the fees by 30% starting Aug. 1. China Securities Depository & Clearing Co. also announced that it will cut transaction fees by 33% on Aug 1.

- Restriction in futures short-selling. CSRC announced that it will investigate any short-selling in the futures market and punish those involved in market manipulation. The China Financial Futures Exchange suspended 19 accounts for a month due to short selling activities. Some brokers also have restricted some clients from selling futures started from 6-Jul-15.

- Brokers increase shareholding. China's top 21 securities brokerages said on 4-July that they would collectively invest at least Rmb120bn in blue-chips ETF. They pledged not to reduce any proprietary investments in the equity market as long as the Shanghai Composite Index stays below 4,500. Listed brokers will buy back shares, and encourage large shareholders and parent companies to increase their shareholdings.

- Sovereign fund and mutual funds also help. Central Huijin Investment, a unit of China's sovereign wealth fund, said on 5-Julythat it had bought exchange-traded funds on the secondary market recently. Twenty five public funds announced that they will invest more funds in equities and hold these for more than one year, and 69 funds announced that they would follow. CSRC will implement different channels to guide investors with long time horizons into the equity markets. One action taken includes allowing the National Social Security Fund (NSSF) to buy equities. Further policies include expanding QFII, RQFII, QDII, and Hong Kong mutual fund recognition programs.

Banks are still safe during deleveraging. Market estimates suggest that China banks have c.Rmb2tn of assets involved in capital markets. Most of these funds have been lent to brokers and trust companies, who have then given loans to their clients through margin financing and umbrella trusts. Banks are quite safe as we do not expect any defaults by brokers and trust firms. Brokers and trust firms' risks are still low due to the low leverage ratio (margin financing <1.5, umbrella trust <3) and more flexible margin call mechanisms in place. Investors with collateral of less than 150% of their loans on margins are required to replenish within 2 trading days, and collateral stocks will be forced into liquidation if the ratio falls to 130%. Regulators have announced that they will give brokers more flexibility on forced liquidation ratio and investors' replenish methods, but brokers are expected to maintain the ratio at least above 100%. Of the Rmb2tn bank funds, an estimated Rmb40bn have been lent to shareholders as equity pledged lending. Risk should be relatively low given <50% LTV ratio.

Positive for banks; H-share slump provides entry point.

1) Arresting a major selloff helps to avoid financial sector risks. Brokers issued margin calls to c.15-20% of margin financing accounts last Friday, according to a market survey. Banks and brokers believe there would be a forced liquidation wave if the Shanghai Composite Index declines to 3,300 (Friday's close: 3,686.92).

2) A-share national banks would be the first to benefit. The Rmb120bn fund invested by 21 brokers will be mainly invested into SSE50, SSE180, and CSI300 index stocks. National banks and large brokers are constituents for all these indexes. 3) H-share investors may be concerned about the impact of China's government bailout. We believe the Chinese government and regulators are able to protect the financial sector from systemic risk given multiple tools at their disposal and strong financial capability. The H-share financial sector should also benefit from ample liquidity and decent discounts to A-share prices.

Valuation and recommendation

Banks' comparison (score 1-5 for each, 1 is the best)

	ICBC	CCB	BOC	ABC	BoCom	CMB	CITIC	Minsheng	CQRCB
NIM	2	2	2	3	2	1	3	4	2
Fee income	4	3	4	5	2	1	1	1	2
NPL formation	3	2	3	3	1	3	1	4	2
Loan risk	2	1	3	4	2	3	3	4	3
Provision	2	1	2	1	3	1	2	4	1
Capital	1	1	2	3	2	1	3	4	1
Overall	4	3	4	5	3	3	3	5	3
H-share P/B	1.13	1.10	1.04	0.97	0.97	1.39	0.86	1.08	1.09
A-share P/B	1.34	1.37	1.32	1.22	1.37	1.51	1.49	1.40	n.a.

Note: 6 Jul-2015
Source: DBS Vickers estimated

Our stock picks are BoCom-H & CITIC-H; ICBC-A & CMB-A. We have not changed our FY15-FY17F earnings forecast. But we have increased the mid-term (2nd stage) growth rate for BoCom to factor in the positive impact from the mixed-ownership reform and potential mixed-operation reform that allows banks to conduct brokerage and diversified financial service. Our stock picks are CITIC-H, BoCom-H; CMB-A & ICBC A. We continue to like CMB-A and CITIC-H. We like CMB for its prudent risk management, better-than-peers PPOP growth, strong provisions and capital levels, and leading internet platform. CITIC Bank has largely improved its provision buffer in the past three quarters, and we expect a turn-around effect in asset quality and earnings in 2H15-2016. It's H-share valuation is very attractive.

BoCom-H

We started to recommend BoCom-A as our top pick among A-share SOE banks after 1Q15 results. BoCom-A has risen 25.6%, but BoCom-H is largely unchanged. We believe H-share investors will recover confidence once more details about reform and asset quality are released. We see potential upside for BoCom-H due to reasons stated below.

- **To be a universal bank.** BoCom Intl., the wholly-owned subsidiary of BoCom, has just received approval from Jiangsu CSRC to acquire Huaying Securities. BoCom has acquired all financial sector licenses in mainland China and is on track to become a universal bank. We expect BoCom to extract synergies among its banking, brokerage, asset management, insurance, trust and financial leasing arms, which should accelerate fee income growth.

- **Mixed-ownership reform and internal restructuring.** BoCom has obtained approval from State Council for mixed-ownership reform, the first among SOE banks. It will likely make a start on the reform this year, according to Chairman NIU Ximing. The bank may launch an employee stock incentive plan and build a more performance-driven compensation system, which will align various interests and increase efficiency. BoCom was the first SOE bank to start a multi-divisional reform, and mixed-ownership reform will help it to complete the whole reform process, paving the road for potential asset spin-offs (e.g. credit card, interbank, asset management). This will further boost efficiency.

- **Better NPL trends.** BoCom reported the fastest increase in NPL ratio among SOE banks in the past two years due to its higher exposure to steel trading businesses and SMEs in Yangtze River Delta. But the NPL ratio for east China has been stabilising since 2H14, but it is increasing rapidly in central and west China, where BoCom has less exposure than peers. BoCom should be the first SOE bank to see a decline in credit cost, and we expect a turn-around effect in profit growth in 2H15-2016.

- **Market-driven pricing.** BoCom is less impacted by the continuing interest rate liberalisation as it is less reliant on deposits, and the pricing of its wealth management products is already market driven. BoCom reported a q-o-q increase in NIM in 1Q15 driven by better lending-borrowing spreads of its interbank business.

- **Benefit from removal of LDR cap.** BoCom has the highest loan-to-deposit ratio among SOE banks, and it will benefit most from the removal of the LDR cap.

ICBC-A

ICBC has been a stable, albeit unexciting Chinese bank for a long time. But this image could change as we understand that the bank has expanded the most overseas in the past several years and its coverage is now closed to BOC; we listened to the TED-style speech made by ICBC's president as the bank became a pioneer in internet financing and has the most comprehensive internet platform among banks. We like ICBC's innovation capability and global vision, as well as its solid capital position and prudent risk management. A-share retail investors had ignored the bank in the past due to its large cap, but as a heavy-weight index constituent, ICBC-A will benefit from China's bailout plan to save the A-share market in the short-term.

Valuation comparison -H

	Bloomberg Ticker	Closing price (HK$)	Stock rating	Target Price (HK$)	Upside/ Dwnside (%)	PER FY14 (X)	PER FY15F (X)	EPS CAGR 14-16 (%)	ROE FY14 (%)	ROE FY15F (%)	PBV FY14 (X)	PBV FY15F (X)	Div yield FY14 (%)	Div yield FY15F (%)
PRC banks (H-share)														
ICBC - H	1398 HK	6.11	Buy	7.30	19	6.2	6.1	2.0	19.7	17.4	1.13	1.01	5.3	5.4
CCB - H	0939 HK	6.85	Buy	8.47	24	6.0	6.0	1.6	19.7	17.3	1.10	0.97	5.5	5.5
BOC - H	3988 HK	4.80	Buy	5.86	22	6.3	6.5	0.4	17.0	15.0	1.04	0.92	4.9	5.0
ABC - H	1288 HK	3.86	Hold	4.63	20	5.6	5.6	1.0	19.2	16.7	0.97	0.89	5.9	6.0
BoCom - H	3328 HK	7.68	Buy	9.34	22	6.9	6.8	1.3	14.8	13.4	0.97	0.87	4.4	4.6
CMB - H	3968 HK	21.60	Buy	26.82	24	7.8	6.9	11.2	19.3	18.3	1.39	1.18	3.9	4.4
CNCB - H	0998 HK	5.97	Buy	8.31	39	5.5	5.4	3.2	16.8	14.6	0.86	0.74	-	5.5
CMBC - H*	1988 HK	9.46	Hold	12.19	29	5.8	5.4	6.4	20.3	17.9	1.08	0.89	2.4	2.8
CQRCB	3618 HK	6.04	Buy	7.50	24	6.6	5.9	8.0	17.6	17.1	1.09	0.94	4.1	4.6
CEB - H*	6818 HK	4.27	NR	NA	NA	5.5	5.2	n.a.	14.7	15.8	0.85	0.78	6.1	5.7
Huishang*	3698 HK	3.84	NR	NA	NA	6.0	5.7	n.a.	14.5	15.3	0.93	0.83	5.8	5.3
BoCQ*	1963 HK	6.91	NR	NA	NA	5.3	4.8	5.8	17.8	18.5	0.94	0.81	5.8	5.2
Harbin*	6138 HK	2.71	NR	NA	NA	5.9	5.4	5.9	14.2	14.3	0.81	0.70	5.5	5.1
Shengjing*	2066 HK	8.15	NR	NA	NA	5.2	5.8	6.9	17.1	16.3	1.03	0.92	3.8	3.2
Simple average						6.0	5.8	4.5	17.3	16.3	1.01	0.89	4.5	4.9

Note: close price on 6 Jul 2015.
Source: Bloomberg Finance L.P., DBS Vickers estimates

Valuation comparison -A

	Bloomberg Ticker	Closing price (Rmb)	Stock rating	Target Price (Rmb)	Upside/ Dwnside (%)	PER FY14 (X)	PER FY15F (X)	EPS CAGR 14-16 (%)	ROE FY14 (%)	ROE FY15F (%)	PBV FY14 (X)	PBV FY15F (X)	Div yield FY14 (%)	Div yield FY15F (%)
PRC banks (A-share)														
ICBC - A	601398 CH	5.79	Buy	6.37	10	7.4	7.3	2.0	19.7	17.4	1.34	1.21	4.4	4.6
CCB - A	601939 CH	6.79	Hold	7.39	9	7.5	7.4	1.6	19.7	17.3	1.37	1.21	4.4	4.4
BOC - A	601988 CH	4.90	Hold	5.11	4	8.1	8.3	0.4	17.0	15.0	1.32	1.19	3.9	3.9
ABC - A	601288 CH	3.86	Hold	4.04	5	7.0	7.0	1.0	19.2	16.7	1.22	1.13	4.7	4.8
BoCom - A	601328 CH	8.69	Buy	8.16	(6)	9.8	9.7	1.3	14.8	13.4	1.37	1.24	3.1	3.2
CMB - A	600036 CH	18.82	Buy	23.42	24	8.5	7.6	11.2	19.3	18.3	1.51	1.29	3.6	4.0
CNCB - A	601998 CH	8.27	Sell	7.26	(12)	9.5	9.5	3.2	16.8	14.6	1.49	1.29	-	3.2
CMBC - A	600016 CH	9.86	FV	10.64	8	7.5	7.1	6.4	20.3	17.9	1.40	1.17	1.9	2.1
CEB - A*	601818 CH	4.84	NR	NA	NA	8.4	8.1	na	15.2	15.7	1.30	1.19	3.9	3.7
CIB*	601166 CH	16.95	NR	NA	NA	6.9	6.3	9.9	17.9	18.9	1.24	1.10	3.7	3.4
SPDB*	600000 CH	17.22	NR	NA	NA	6.8	6.5	11.0	17.5	18.5	1.13	1.10	5.1	4.6
Huaxia*	600015 CH	15.58	NR	NA	NA	7.7	7.3	5.7	16.9	17.8	1.32	1.19	3.5	3.2
PAB*	000001 CH	13.88	NR	NA	NA	9.2	8.1	n.a	15.4	16.1	1.39	1.17	1.3	1.3
BOBJ*	601169 CH	12.39	NR	NA	NA	8.4	8.0	8.8	16.0	15.9	1.31	1.24	3.0	2.7
BONJ*	601009 CH	17.72	NR	NA	NA	9.4	9.0	10.0	17.1	17.5	1.55	1.49	2.9	2.6
BONB*	002142 CH	18.62	NR	NA	NA	9.9	9.3	9.6	17.4	17.7	1.69	1.55	2.6	2.3
Simple average						8.2	7.9	5.9	17.5	16.8	1.37	1.24	3.3	3.4

Note: close price on 6 Jul 2015.
Source: Bloomberg Finance L.P., DBS Vickers estimates

Share price performance vs. HSI and HSCEI

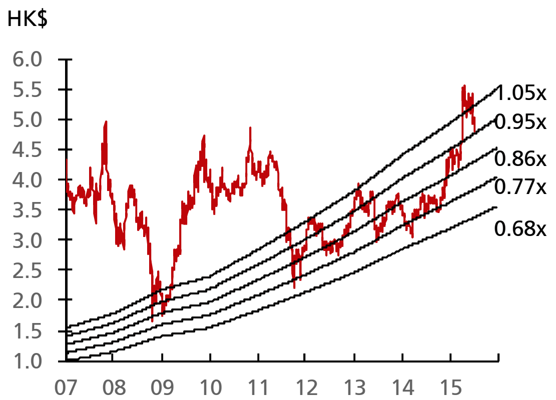
	1 week performance			1 month performance			3 month performance			1 year performance			YTD performance		
	abs. (%)	rel. to HSI (%)	rel. to HSCEI (%)	abs. (%)	rel. to HSI (%)	rel. to HSCEI (%)	abs. (%)	rel. to HSI (%)	rel. to HSCEI (%)	abs. (%)	rel. to HSI (%)	rel. to HSCEI (%)	abs. (%)	rel. to HSI (%)	rel. to HSCEI (%)
ICBC	(5.9)	(3.7)	(2.2)	(7.6)	(1.8)	3.1	6.2	3.0	6.6	24.4	13.7	3.8	18.5	6.7	1.9
CCB	(0.6)	1.7	3.1	(9.5)	(3.7)	1.2	7.5	4.4	7.9	25.7	14.9	5.1	20.5	8.7	3.9
BOC	(1.2)	1.1	2.5	(4.1)	1.7	6.6	7.6	4.5	8.0	40.0	29.2	19.4	39.2	27.4	22.6
ABC	(5.6)	(3.3)	(1.9)	(7.6)	(1.8)	3.1	0.5	(2.6)	0.9	10.1	(0.6)	(10.5)	2.6	(9.2)	(14.0)
BoCom	(0.5)	1.7	3.2	3.1	8.9	13.8	16.4	13.3	16.8	49.6	38.9	29.0	43.9	32.0	27.3
CMB	(1.6)	0.7	2.1	(12.2)	(6.5)	(1.6)	10.8	7.7	11.2	46.3	35.5	25.6	32.3	20.4	15.7
CNCB	(3.0)	(0.7)	0.7	(6.3)	(0.5)	4.4	3.0	(0.1)	3.4	26.5	15.8	5.9	46.1	34.2	29.5
CMBC	(4.5)	(2.3)	(0.9)	(8.8)	(3.1)	1.9	0.0	(3.1)	0.4	36.3	25.6	15.7	12.9	1.1	(3.7)
CQRCB	3.4	5.7	7.1	(1.6)	4.2	9.1	21.3	18.1	21.7	73.9	63.1	53.3	68.4	56.5	51.8
Simple avg.	(2.2)	0.1	1.5	(6.0)	(0.3)	4.6	8.1	5.0	8.6	37.0	26.2	16.4	31.6	19.8	15.0

Note: close price on 6 Jul 2015.
Source: Thomson Reuters, DBS Vickers

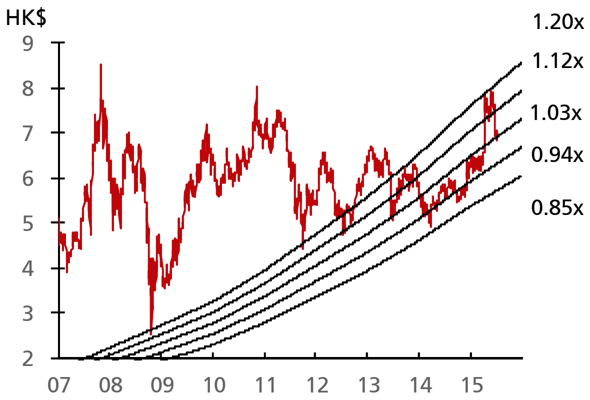
Appendix – PB bands

ICBC

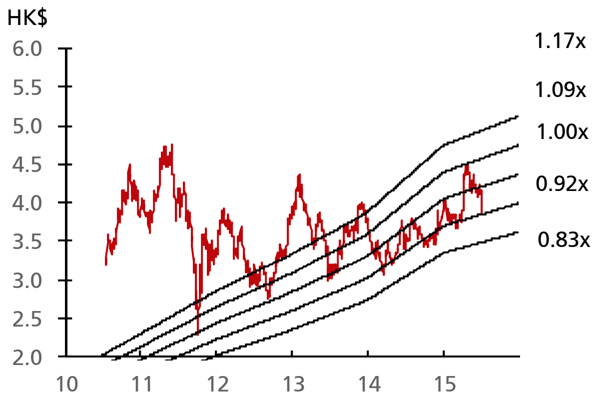
CCB



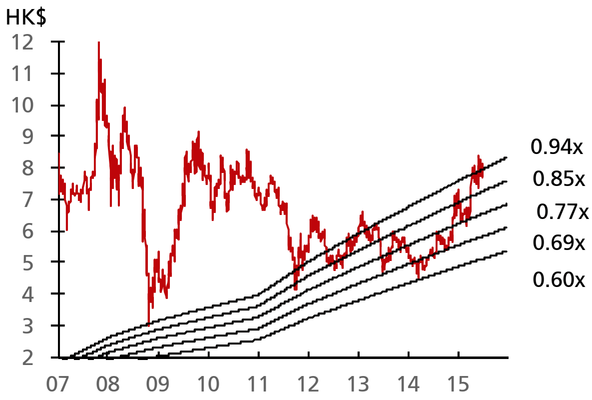
BOC



ABC



BoCom



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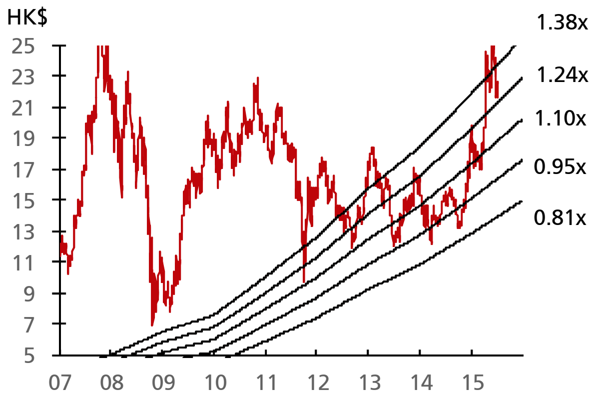
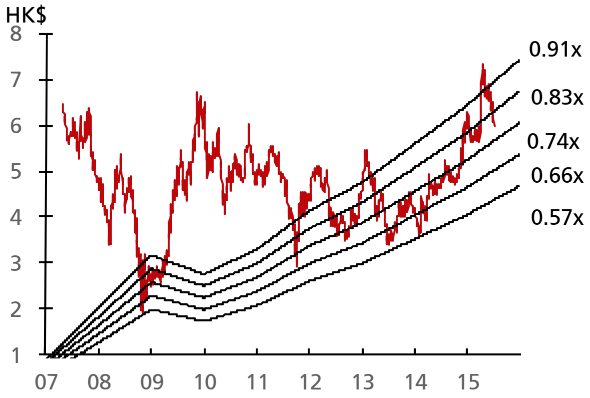


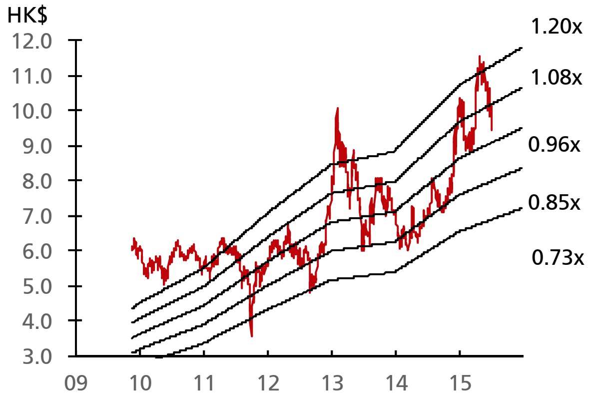
Source: Bloomberg Finance L.P., DBS Vickers

DBS VICKERS SECURITIES

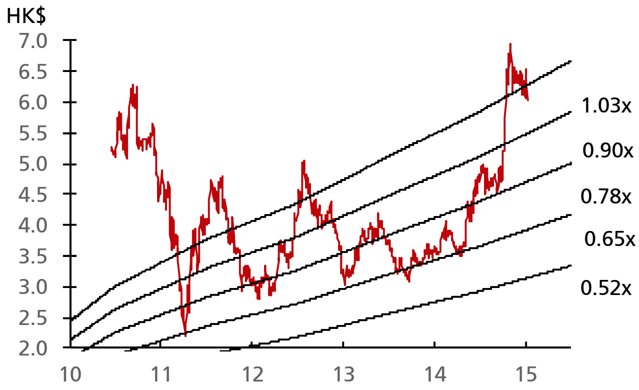
CNCB



CMBC



CQRCB



Source: Bloomberg Finance L.P., DBS Vickers

Appendix – Financial summary

Financial summary for ICBC

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	362,764	417,828	443,335	493,522	525,213	547,265	574,336
Net fees & commissions (Rmb m)	101,550	106,064	122,326	132,497	148,106	165,729	185,475
Total revenues (Rmb m)	470,601	529,720	578,901	634,858	683,043	723,689	771,576
Pre-provision op. profit (Rmb m)	300,988	339,780	374,761	416,184	446,185	467,980	496,224
Total provisions (Rmb m)	(31,121)	(33,745)	(38,321)	(56,729)	(74,597)	(82,392)	(90,691)
Profit before Tax (Rmb m)	272,311	308,687	338,537	361,612	373,817	387,902	407,969
Net profit (Rmb m)	208,265	238,532	262,649	275,811	281,705	291,098	306,402
Net interest income growth (%)	0.0%	15.2%	6.1%	11.3%	6.4%	4.2%	4.9%
Net profit growth (%)	0.0%	14.5%	10.1%	5.0%	2.1%	3.3%	5.3%
Net interest margin (%)	2.55%	2.60%	2.52%	2.59%	2.55%	2.47%	2.41%
Loan growth (%)	21%	13%	13%	11%	11%	10%	10%
Deposit growth (%)	0%	11%	7%	6%	6%	7%	7%
Cost to income ratio (%)	36%	36%	35%	34%	35%	35%	36%
Balance sheet							
Total net loans (Rmb bn)	7,594	8,583	9,681	10,769	11,912	13,098	14,389
Total assets (Rmb bn)	15,477	17,542	18,918	20,610	22,130	23,771	25,550
Customer deposits (Rmb bn)	12,261	13,643	14,621	15,557	16,568	17,728	18,968
Total liabilities (Rmb bn)	14,519	16,414	17,639	19,073	20,336	21,778	23,347
Shareholders' equity (Rmb bn)	957	1,125	1,274	1,530	1,707	1,907	2,116
Core CAR %	10.1%	10.6%	10.6%	11.9%	12.9%	13.4%	13.9%
Total CAR (%)	13.2%	13.7%	13.1%	14.5%	16.1%	16.4%	16.8%
NPLs/Gross loans (%)	0.94%	0.85%	0.94%	1.13%	1.33%	1.41%	1.36%
Ratios and Valuation Data							
EPS (Rmb)	0.60	0.68	0.75	0.78	0.79	0.82	0.86
EPS growth (%)	0.0%	14.4%	9.9%	4.6%	1.1%	2.9%	5.3%
P/E (X)	8.3	7.2	6.4	6.2	6.1	5.8	5.5
Core EPS	0.60	0.68	0.75	0.78	0.79	0.82	0.86
Core EPS growth (%)	0.0%	14.4%	9.9%	4.6%	1.1%	2.9%	5.3%
Core P/E (X)	8.2	7.2	6.5	6.2	6.2	6.0	5.7
FD EPS (Rmb)	0.59	0.67	0.74	0.78	0.79	0.82	0.86
FD EPS growth (%)	0.0%	14.5%	10.3%	5.1%	1.9%	2.9%	5.3%
P/E (FD) (X)	8.3	7.3	6.6	6.3	6.2	6.0	5.7
DPS (Rmb)	0.20	0.24	0.26	0.26	0.26	0.27	0.29
Dividend yield %	4.1%	4.9%	5.5%	5.3%	5.4%	5.8%	6.1%
BVPS (Rmb)	2.74	3.22	3.63	4.33	4.79	5.35	5.93
Price/ BVPS (X)	1.81	1.53	1.32	1.13	1.01	0.89	0.80
Return on avg equity (ROAE) %	21.8%	22.9%	21.9%	19.7%	17.4%	16.1%	15.2%
ROAA (Post-tax) %	1.44%	1.44%	1.44%	1.40%	1.32%	1.27%	1.24%

Source: Companies, DBS Vickers

Financial summary for CCB

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	304,572	353,202	389,544	437,398	451,167	467,982	492,849
Net fees & commissions (Rmb m)	86,994	93,507	104,283	108,517	116,943	126,844	138,146
Total revenues (Rmb m)	399,403	462,533	511,140	556,740	578,935	605,651	641,820
Pre-provision op. profit (Rmb m)	254,866	291,452	322,955	360,752	368,074	379,381	399,550
Total provisions (Rmb m)	(35,783)	(40,041)	(43,209)	(61,911)	(68,799)	(70,969)	(72,700)
Profit before Tax (Rmb m)	219,107	251,439	279,806	299,086	299,520	308,665	327,120
Net profit (Rmb m)	169,258	193,179	214,657	227,830	228,160	235,127	249,183
Net interest income growth (%)	0.0%	16.0%	10.3%	12.3%	3.1%	3.7%	5.3%
Net profit growth (%)	0.0%	14.1%	11.1%	6.1%	0.1%	3.1%	6.0%
Net interest margin (%)	2.66%	2.71%	2.71%	2.81%	2.68%	2.58%	2.53%
Loan growth (%)	15%	16%	14%	10%	10%	10%	9%
Deposit growth (%)	0%	14%	8%	6%	8%	7%	7%
Cost to income ratio (%)	36%	37%	37%	35%	36%	37%	38%
Balance sheet							
Total net loans (Rmb bn)	6,325	7,310	8,361	9,223	10,183	11,188	12,262
Total assets (Rmb bn)	12,282	13,973	15,363	16,744	18,371	19,826	21,388
Customer deposits (Rmb bn)	9,987	11,343	12,223	12,899	13,931	14,906	15,949
Total liabilities (Rmb bn)	11,465	13,023	14,289	15,492	16,963	18,257	19,646
Shareholders' equity (Rmb bn)	811	942	1,066	1,242	1,400	1,560	1,732
Core CAR %	0.0%	0.0%	10.8%	12.1%	13.3%	13.8%	14.2%
Total CAR (%)	0.0%	0.0%	13.3%	14.9%	16.0%	16.5%	16.8%
NPLs/Gross loans (%)	1.09%	0.99%	0.99%	1.19%	1.43%	1.56%	1.55%
Ratios and Valuation Data							
EPS (Rmb)	0.68	0.77	0.86	0.91	0.91	0.94	1.00
EPS growth (%)	0.0%	14.1%	11.1%	6.1%	0.1%	3.1%	6.0%
P/E (X)	8.2	7.1	6.2	6.0	6.0	5.7	5.3
Core EPS	0.68	0.77	0.86	0.91	0.91	0.94	1.00
Core EPS growth (%)	0.0%	14.1%	11.1%	6.1%	0.1%	3.1%	6.0%
Core P/E (X)	8.1	7.1	6.4	6.0	6.0	5.8	5.5
FD EPS (Rmb)	0.68	0.77	0.86	0.91	0.91	0.94	1.00
FD EPS growth (%)	0.0%	14.1%	11.1%	6.1%	0.1%	3.1%	6.0%
P/E (FD) (X)	8.1	7.1	6.4	6.0	6.0	5.8	5.5
DPS (Rmb)	0.24	0.27	0.30	0.30	0.30	0.31	0.33
Dividend yield %	4.3%	4.9%	5.6%	5.5%	5.5%	5.8%	6.2%
BVPS (Rmb)	3.24	3.77	4.26	4.97	5.60	6.24	6.93
Price/ BVPS (X)	1.71	1.46	1.26	1.10	0.97	0.85	0.77
Return on avg equity (ROAE) %	20.9%	22.0%	21.4%	19.7%	17.3%	15.9%	15.1%
ROAA (Post-tax) %	1.47%	1.47%	1.46%	1.42%	1.30%	1.23%	1.21%

Source: Companies, DBS Vickers

Financial summary for BOC

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	228,064	256,964	283,585	321,102	340,330	353,018	370,860
Net fees & commissions (Rmb m)	64,662	69,923	82,092	91,240	100,777	113,078	126,761
Total revenues (Rmb m)	328,298	366,176	407,509	456,328	487,358	514,728	548,757
Pre-provision op. profit (Rmb m)	187,483	206,447	235,195	278,540	294,627	305,952	323,620
Total provisions (Rmb m)	(19,355)	(19,387)	(23,510)	(48,381)	(58,507)	(61,377)	(63,798)
Profit before Tax (Rmb m)	168,644	187,673	212,777	231,478	237,473	245,977	261,313
Net profit (Rmb m)	124,276	139,656	156,911	169,595	170,137	176,384	187,648
Net interest income growth (%)	0.0%	12.7%	10.4%	13.2%	6.0%	3.7%	5.1%
Net profit growth (%)	0.0%	12.4%	12.4%	8.1%	0.3%	3.7%	6.4%
Net interest margin (%)	2.00%	2.18%	2.23%	2.30%	2.22%	2.09%	2.00%
Loan growth (%)	0%	15%	19%	21%	19%	17%	15%
Deposit growth (%)	0%	3%	10%	8%	10%	10%	10%
Cost to income ratio (%)	0%	0%	0%	0%	0%	0%	0%
Balance sheet							
Total net loans (Rmb bn)	6,203	6,710	7,440	8,295	9,392	10,591	11,895
Total assets (Rmb bn)	11,830	12,681	13,874	15,251	16,744	18,388	20,191
Customer deposits (Rmb bn)	8,679	8,947	9,860	10,607	11,689	12,881	14,195
Total liabilities (Rmb bn)	11,073	11,819	12,913	14,068	15,432	16,946	18,610
Shareholders' equity (Rmb bn)	724	825	924	1,069	1,193	1,318	1,452
Core CAR %	0.0%	0.0%	9.7%	10.6%	11.1%	11.4%	11.4%
Total CAR (%)	0.0%	0.0%	12.5%	13.9%	12.8%	13.0%	13.0%
NPLs/Gross loans (%)	1.00%	0.95%	0.96%	1.18%	1.36%	1.44%	1.45%
Ratios and Valuation Data							
EPS (Rmb)	0.45	0.50	0.56	0.61	0.59	0.61	0.65
EPS growth (%)	0.0%	12.4%	12.3%	7.8%	-2.7%	3.7%	6.4%
P/E (X)	8.7	7.7	6.7	6.3	6.5	6.1	5.7
Core EPS	0.45	0.50	0.56	0.61	0.59	0.61	0.65
Core EPS growth (%)	0.0%	12.4%	12.3%	7.8%	-2.7%	3.7%	6.4%
Core P/E (X)	8.6	7.7	6.8	6.3	6.5	6.3	5.9
FD EPS (Rmb)	0.43	0.48	0.54	0.58	0.59	0.61	0.65
FD EPS growth (%)	0.0%	12.2%	11.5%	7.7%	2.1%	3.7%	6.4%
P/E (FD) (X)	9.0	8.0	7.2	6.7	6.5	6.3	5.9
DPS (Rmb)	0.16	0.18	0.20	0.19	0.19	0.20	0.21
Dividend yield %	4.0%	4.5%	5.2%	4.9%	5.0%	5.3%	5.6%
BVPS (Rmb)	2.59	2.95	3.31	3.70	4.13	4.57	5.03
Price/ BVPS (X)	1.50	1.31	1.14	1.04	0.92	0.82	0.74
Return on avg equity (ROAE) %	17.2%	18.0%	17.9%	17.0%	15.0%	14.0%	13.6%
ROAA (Post-tax) %	1.05%	1.14%	1.18%	1.16%	1.06%	1.00%	0.97%

Source: Companies, DBS Vickers

Financial summary for ABC

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	307,199	341,879	376,202	429,891	452,222	475,180	503,862
Net fees & commissions (Rmb m)	68,750	74,844	83,171	80,123	89,502	101,535	115,867
Total revenues (Rmb m)	379,756	424,964	465,771	524,126	558,658	596,359	641,887
Pre-provision op. profit (Rmb m)	222,426	242,162	267,164	300,228	319,388	340,564	368,325
Total provisions (Rmb m)	(64,225)	(54,235)	(52,990)	(67,971)	(84,520)	(100,538)	(114,546)
Profit before Tax (Rmb m)	158,201	187,927	214,174	232,257	234,868	240,026	253,781
Net profit (Rmb m)	121,927	145,094	166,315	179,461	179,082	183,068	193,694
Net interest income growth (%)	0.0%	11.3%	10.0%	14.3%	5.2%	5.1%	6.0%
Net profit growth (%)	0.0%	19.0%	14.6%	7.9%	-0.2%	2.2%	5.8%
Net interest margin (%)	5.31%	2.78%	2.77%	2.90%	2.79%	2.68%	2.60%
Loan growth (%)	0%	14%	12%	12%	11%	11%	11%
Deposit growth (%)	0%	13%	9%	6%	9%	9%	9%
Cost to income ratio (%)	41%	43%	43%	43%	43%	43%	43%
Balance sheet							
Total net loans (Rmb bn)	5,410	6,153	6,903	7,740	8,622	9,578	10,605
Total assets (Rmb bn)	11,678	13,244	14,562	15,974	17,548	19,207	20,953
Customer deposits (Rmb bn)	9,622	10,863	11,811	12,533	13,611	14,782	16,053
Total liabilities (Rmb bn)	11,028	12,493	13,718	14,942	16,393	17,929	19,542
Shareholders' equity (Rmb bn)	650	750	843	1,031	1,113	1,237	1,369
Core CAR %	9.5%	9.7%	9.3%	9.1%	9.4%	9.6%	9.7%
Total CAR (%)	11.9%	12.6%	11.9%	12.8%	12.0%	12.1%	12.1%
NPLs/Gross loans (%)	1.55%	1.33%	1.22%	1.54%	2.01%	2.41%	2.73%
Ratios and Valuation Data							
EPS (Rmb)	0.38	0.45	0.51	0.55	0.55	0.56	0.60
EPS growth (%)	0.0%	19.0%	14.6%	7.9%	-0.2%	2.2%	5.8%
P/E (X)	8.3	6.9	5.9	5.6	5.6	5.3	5.0
Core EPS	0.38	0.45	0.51	0.55	0.55	0.56	0.60
Core EPS growth (%)	0.0%	19.0%	14.6%	7.9%	-0.2%	2.2%	5.8%
Core P/E (X)	8.2	6.9	6.0	5.6	5.6	5.5	5.2
FD EPS (Rmb)	0.38	0.45	0.51	0.55	0.55	0.56	0.60
FD EPS growth (%)	0.0%	19.0%	14.6%	7.9%	-0.2%	2.2%	5.8%
P/E (FD) (X)	8.2	6.9	6.0	5.6	5.6	5.5	5.2
DPS (Rmb)	0.13	0.13	0.18	0.18	0.18	0.19	0.20
Dividend yield %	4.2%	4.2%	5.9%	5.9%	6.0%	6.3%	6.7%
BVPS (Rmb)	2.00	2.31	2.60	3.17	3.43	3.81	4.22
Price/ BVPS (X)	1.57	1.34	1.16	0.97	0.89	0.79	0.71
Return on avg equity (ROAE) %	18.8%	20.7%	20.9%	19.2%	16.7%	15.6%	14.9%
ROAA (Post-tax) %	2.09%	1.16%	1.20%	1.18%	1.07%	1.00%	0.96%

Source: Companies, DBS Vickers

Financial summary for BoCom

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	103,493	120,126	130,658	134,776	139,275	144,700	154,641
Net fees & commissions (Rmb m)	18,657	20,882	25,968	29,604	33,556	38,271	43,778
Total revenues (Rmb m)	127,795	148,184	165,028	178,536	189,819	202,676	220,647
Pre-provision op. profit (Rmb m)	77,932	89,744	98,277	105,276	111,375	118,674	130,687
Total provisions (Rmb m)	(12,479)	(14,537)	(18,410)	(20,439)	(23,774)	(26,897)	(30,388)
Profit before Tax (Rmb m)	65,451	75,211	79,909	84,927	87,694	91,875	100,407
Net profit (Rmb m)	50,735	58,369	62,295	65,850	66,195	67,637	74,251
Net interest income growth (%)	0.0%	16.1%	8.8%	3.2%	3.3%	3.9%	6.9%
Net profit growth (%)	0.0%	15.0%	6.7%	5.7%	0.5%	2.2%	9.8%
Net interest margin (%)	4.60%	2.50%	2.41%	2.31%	2.24%	2.15%	2.14%
Loan growth (%)	0%	15%	11%	5%	10%	10%	10%
Deposit growth (%)	0%	14%	12%	-3%	6%	6%	6%
Cost to income ratio (%)	39%	39%	40%	41%	41%	41%	41%
Balance sheet							
Total net loans (Rmb bn)	2,505	2,880	3,193	3,355	3,680	4,038	4,429
Total assets (Rmb bn)	4,611	5,273	5,961	6,268	6,895	7,477	8,060
Customer deposits (Rmb bn)	3,283	3,728	4,158	4,030	4,271	4,528	4,799
Total liabilities (Rmb bn)	4,338	4,892	5,539	5,795	6,313	6,847	7,377
Shareholders' equity (Rmb bn)	272	380	420	471	519	568	620
Core CAR %	0.0%	0.0%	9.8%	11.3%	11.4%	11.6%	11.8%
Total CAR (%)	0.0%	0.0%	12.1%	14.0%	15.6%	15.4%	15.5%
NPLs/Gross loans (%)	0.86%	0.92%	1.05%	1.25%	1.41%	1.59%	1.59%
Ratios and Valuation Data							
EPS (Rmb)	0.82	0.88	0.84	0.89	0.89	0.91	1.00
EPS growth (%)	0.0%	7.9%	-5.1%	5.7%	0.5%	2.2%	9.8%
P/E (X)	7.6	7.0	7.2	6.9	6.8	6.6	6.0
Core EPS	0.82	0.88	0.84	0.89	0.89	0.91	1.00
Core EPS growth (%)	0.0%	7.9%	-5.1%	5.7%	0.5%	2.2%	9.8%
Core P/E (X)	7.5	7.0	7.3	6.9	6.9	6.7	6.1
FD EPS (Rmb)	0.82	0.88	0.84	0.89	0.89	0.91	1.00
FD EPS growth (%)	0.0%	7.9%	-5.1%	5.7%	0.5%	2.2%	9.8%
P/E (FD) (X)	7.5	7.0	7.3	6.9	6.9	6.7	6.1
DPS (Rmb)	0.02	0.24	0.26	0.27	0.28	0.29	0.32
Dividend yield %	0.3%	3.9%	4.3%	4.4%	4.6%	4.9%	5.3%
BVPS (Rmb)	4.39	5.12	5.65	6.34	6.99	7.64	8.35
Price/ BVPS (X)	1.42	1.21	1.06	0.97	0.87	0.78	0.72
Return on avg equity (ROAE) %	18.7%	17.9%	15.6%	14.8%	13.4%	12.5%	12.5%
ROAA (Post-tax) %	2.20%	1.18%	1.11%	1.08%	1.01%	0.94%	0.96%

Source: Companies, DBS Vickers

Financial summary for CMB

Company financial summary FYE Dec	FY2011	FY2012	FY2013	FY2014	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	76,307	88,374	98,913	112,000	122,674	128,686	141,020
Net fees & commissions (Rmb m)	15,628	19,739	29,184	44,696	64,383	85,628	106,894
Total revenues (Rmb m)	96,603	113,754	133,030	166,367	198,662	227,776	263,099
Pre-provision op. profit (Rmb m)	55,409	65,077	78,555	104,954	130,678	152,267	179,566
Total provisions (Rmb m)	(8,350)	(5,583)	(10,218)	(31,681)	(48,820)	(61,620)	(78,430)
Profit before Tax (Rmb m)	47,122	59,558	68,425	73,431	82,034	90,842	101,354
Net profit (Rmb m)	36,129	45,268	51,743	55,911	62,462	69,168	77,172
Net interest income growth (%)	0.0%	15.8%	11.9%	13.2%	9.5%	4.9%	9.6%
Net profit growth (%)	0.0%	25.3%	14.3%	8.1%	11.7%	10.7%	11.6%
Net interest margin (%)	2.76%	2.89%	2.70%	2.61%	2.48%	2.31%	2.26%
Loan growth (%)	0%	16%	15%	14%	14%	13%	13%
Deposit growth (%)	0%	14%	10%	19%	14%	13%	13%
Cost to income ratio (%)	43%	43%	41%	37%	34%	33%	32%
Balance sheet							
Total net loans (Rmb bn)	1,604	1,863	2,148	2,449	2,771	3,119	3,506
Total assets (Rmb bn)	2,795	3,408	4,016	4,732	5,344	5,995	6,702
Customer deposits (Rmb bn)	2,220	2,532	2,775	3,304	3,767	4,257	4,789
Total liabilities (Rmb bn)	2,630	3,208	3,750	4,417	4,977	5,571	6,217
Shareholders' equity (Rmb bn)	163	200	265	314	367	423	483
Core CAR %	8.2%	8.3%	9.3%	10.4%	12.2%	12.4%	12.6%
Total CAR (%)	11.5%	11.4%	11.1%	12.4%	14.3%	14.4%	14.5%
NPLs/Gross loans (%)	0.56%	0.61%	0.83%	1.11%	1.50%	1.72%	1.65%
Ratios and Valuation Data							
EPS (Rmb)	1.67	2.10	2.30	2.22	2.48	2.74	3.06
EPS growth (%)	0.0%	25.3%	9.7%	-3.7%	11.7%	10.7%	11.6%
P/E (X)	10.5	8.3	7.3	7.8	6.9	6.1	5.5
Core EPS	1.67	2.10	2.30	2.22	2.48	2.74	3.06
Core EPS growth (%)	0.0%	25.3%	9.7%	-3.7%	11.7%	10.7%	11.6%
Core P/E (X)	10.3	8.2	7.5	7.8	7.0	6.3	5.6
FD EPS (Rmb)	1.67	2.10	2.30	2.22	2.48	2.74	3.06
FD EPS growth (%)	0.0%	25.3%	9.7%	-3.7%	11.7%	10.7%	11.6%
P/E (FD) (X)	10.3	8.2	7.5	7.8	7.0	6.3	5.6
DPS (Rmb)	0.42	0.63	0.62	0.67	0.75	0.83	0.92
Dividend yield %	2.4%	3.6%	3.7%	3.9%	4.4%	4.9%	5.5%
BVPS (Rmb)	7.53	9.28	10.53	12.47	14.55	16.76	19.17
Price/ BVPS (X)	2.33	1.87	1.61	1.39	1.18	1.00	0.88
Return on avg equity (ROAE) %	22.2%	25.0%	22.2%	19.3%	18.3%	17.5%	17.0%
ROAA (Post-tax) %	1.29%	1.46%	1.39%	1.28%	1.24%	1.22%	1.22%

Source: Companies, DBS Vickers

Financial summary for Citic

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016	FY2017
Income Statement							
Net interest income (Rmb m)	65,106	75,486	85,688	94,741	100,884	108,709	118,436
Net fees & commissions (Rmb m)	8,837	11,210	16,811	25,313	35,553	47,933	62,515
Total revenues (Rmb m)	77,092	89,711	104,813	124,839	142,179	163,302	188,464
Pre-provision op. profit (Rmb m)	48,711	54,732	64,378	78,043	87,688	100,178	115,592
Total provisions (Rmb m)	(7,207)	(13,104)	(11,940)	(23,673)	(30,133)	(36,266)	(42,838)
Profit before Tax (Rmb m)	41,590	41,609	52,549	54,574	57,769	64,149	73,025
Net profit (Rmb m)	30,819	31,032	39,175	40,692	41,923	45,630	52,248
Net interest income growth (%)	0.0%	15.9%	13.5%	10.6%	6.5%	7.8%	8.9%
Net profit growth (%)	0.0%	0.7%	26.2%	3.9%	3.0%	8.8%	14.5%
Net interest margin (%)	2.71%	2.66%	2.62%	2.47%	2.33%	2.21%	2.14%
Loan growth (%)	13%	16%	17%	13%	13%	12%	12%
Deposit growth (%)	0%	15%	18%	7%	10%	13%	13%
Cost to income ratio (%)	37%	39%	39%	37%	38%	39%	39%
Balance sheet							
Total net loans (Rmb bn)	1,411	1,628	1,900	2,136	2,400	2,682	3,000
Total assets (Rmb bn)	2,766	2,960	3,641	4,139	4,696	5,306	5,946
Customer deposits (Rmb bn)	1,968	2,255	2,652	2,850	3,135	3,542	3,985
Total liabilities (Rmb bn)	2,587	2,757	3,410	3,871	4,337	4,912	5,512
Shareholders' equity (Rmb bn)	174	198	226	260	315	350	389
Core CAR %	0.0%	9.3%	8.8%	8.9%	9.7%	9.6%	9.5%
Total CAR (%)	0.0%	12.4%	11.2%	12.3%	13.1%	12.6%	12.3%
NPLs/Gross loans (%)	0.60%	0.74%	1.03%	1.30%	1.50%	1.62%	1.63%
Ratios and Valuation Data							
EPS (Rmb)	0.71	0.66	0.84	0.87	0.87	0.93	1.06
EPS growth (%)	0.0%	-6.7%	26.2%	3.9%	0.4%	6.1%	14.5%
P/E (X)	6.8	7.2	5.6	5.5	5.4	5.0	4.4
Core EPS	0.71	0.66	0.84	0.87	0.87	0.93	1.06
Core EPS growth (%)	0.0%	-6.7%	26.2%	3.9%	0.4%	6.1%	14.5%
Core P/E (X)	6.7	7.2	5.7	5.5	5.5	5.2	4.5
FD EPS (Rmb)	0.71	0.66	0.84	0.87	0.87	0.93	1.06
FD EPS growth (%)	0.0%	-6.7%	26.2%	3.9%	0.4%	6.1%	14.5%
P/E (FD) (X)	6.7	7.2	5.7	5.5	5.5	5.2	4.5
DPS (Rmb)	0.14	0.15	0.25	-	0.26	0.29	0.33
Dividend yield %	3.0%	3.1%	5.4%	0.0%	5.5%	6.3%	7.2%
BVPS (Rmb)	3.73	4.24	4.82	5.55	6.41	7.11	7.89
Price/ BVPS (X)	1.30	1.13	0.97	0.86	0.74	0.65	0.59
Return on avg equity (ROAE) %	17.7%	16.6%	18.5%	16.8%	14.6%	13.7%	14.1%
ROAA (Post-tax) %	1.27%	1.08%	1.19%	1.05%	0.95%	0.91%	0.93%

Source: Companies, DBS Vickers

Financial summary for Minsheng

Company financial summary FYE Dec	FY2011A	FY2012A	FY2013A	FY2014A	FY2015F	FY2016F	FY2017F
Income Statement							
Net interest income (Rmb m)	64,821	77,153	83,033	92,136	99,889	107,019	115,037
Net fees & commissions (Rmb m)	15,101	20,523	29,956	38,239	50,047	64,604	80,756
Total revenues (Rmb m)	81,000	102,861	116,102	135,007	153,179	174,088	197,784
Pre-provision op. profit (Rmb m)	45,551	59,972	70,140	80,925	91,432	103,417	116,863
Total provisions (Rmb m)	(8,376)	(9,320)	(12,989)	(21,132)	(28,287)	(35,760)	(41,992)
Profit before Tax (Rmb m)	37,173	50,652	57,151	59,793	63,145	67,657	74,873
Net profit (Rmb m)	27,920	37,563	42,278	44,546	47,043	50,404	55,779
Net interest income growth (%)	0.0%	19.0%	7.6%	11.0%	8.4%	7.1%	7.5%
Net profit growth (%)	0.0%	34.5%	12.6%	5.4%	5.6%	7.1%	10.7%
Net interest margin (%)	5.93%	2.90%	2.64%	2.63%	2.43%	2.31%	2.24%
Loan growth (%)	0%	15%	14%	15%	11%	10%	10%
Deposit growth (%)	0%	17%	11%	13%	8%	8%	8%
Cost to income ratio (%)	44%	42%	40%	40%	40%	41%	41%
Balance sheet							
Total net loans (Rmb bn)	1,178	1,352	1,539	1,774	1,963	2,151	2,352
Total assets (Rmb bn)	2,229	3,212	3,226	4,015	4,526	5,072	5,632
Customer deposits (Rmb bn)	1,645	1,926	2,145	2,428	2,627	2,843	3,076
Total liabilities (Rmb bn)	2,095	3,043	3,022	3,767	4,231	4,731	5,242
Shareholders' equity (Rmb bn)	130	163	198	240	287	331	379
Core CAR %	0.0%	0.0%	8.7%	8.6%	9.2%	9.4%	9.8%
Total CAR (%)	0.0%	0.0%	10.7%	10.7%	11.1%	11.3%	11.8%
NPLs/Gross loans (%)	0.63%	0.76%	0.85%	1.17%	1.36%	1.48%	1.47%
Ratios and Valuation Data							
EPS (Rmb)	1.05	1.34	1.24	1.31	1.38	1.48	1.64
EPS growth (%)	0.0%	28.6%	-7.6%	5.4%	5.4%	7.3%	10.7%
P/E (X)	7.3	5.7	6.0	5.8	5.4	5.0	4.5
Core EPS	1.05	1.34	1.24	1.31	1.38	1.48	1.64
Core EPS growth (%)	0.0%	28.6%	-7.6%	5.4%	5.4%	7.3%	10.7%
Core P/E (X)	7.2	5.6	6.1	5.8	5.5	5.1	4.6
FD EPS (Rmb)	1.05	1.34	1.18	1.22	1.38	1.48	1.64
FD EPS growth (%)	0.0%	28.6%	-12.5%	4.2%	12.7%	7.3%	10.7%
P/E (FD) (X)	7.2	5.6	6.4	6.2	5.5	5.1	4.6
DPS (Rmb)	0.32	0.30	0.26	0.18	0.21	0.22	0.25
Dividend yield %	4.1%	3.9%	3.5%	2.4%	2.8%	3.0%	3.4%
BVPS (Rmb)	4.85	5.75	6.97	7.03	8.43	9.71	11.14
Price/ BVPS (X)	1.58	1.32	1.06	1.08	0.89	0.76	0.66
Return on avg equity (ROAE) %	43.1%	25.7%	23.4%	20.3%	17.9%	16.3%	15.7%
ROAA (Post-tax) %	2.51%	1.38%	1.31%	1.23%	1.10%	1.05%	1.04%

Source: Companies, DBS Vickers

Financial summary for CQRCB

Company financial summary FYE Dec	FY2011	FY2012A	FY2013A	FY2014A	FY2015F	FY2016F	FY2017
Income Statement							
Net interest income (Rmb m)	-	13,092	15,703	18,349	20,153	21,347	22,046
Net fees & commissions (Rmb m)	-	436	680	1,070	1,374	1,739	2,158
Total revenues (Rmb m)	-	13,653	16,316	19,802	21,949	23,508	24,626
Pre-provision op. profit (Rmb m)	-	7,579	9,108	11,402	12,330	12,805	12,982
Total provisions (Rmb m)	-	(511)	(1,181)	(2,297)	(2,205)	(2,193)	(2,266)
Profit before Tax (Rmb m)	-	7,067	7,927	9,110	10,131	10,618	10,722
Net profit (Rmb m)	-	5,361	6,001	6,828	7,594	7,959	8,037
Net interest income growth (%)	0.0%	0.0%	19.9%	16.8%	9.8%	5.9%	3.3%
Net profit growth (%)	0.0%	0.0%	11.9%	13.8%	11.2%	4.8%	1.0%
Net interest margin (%)	0.00%	3.20%	3.54%	3.41%	3.18%	3.04%	2.89%
Loan growth (%)	0%	0%	18%	18%	14%	12%	10%
Deposit growth (%)	0%	0%	18%	18%	16%	14%	12%
Cost to income ratio (%)	0%	44%	44%	42%	44%	46%	47%
Balance sheet							
Total net loans (Rmb bn)	-	168	198	234	265	295	324
Total assets (Rmb bn)	-	434	502	619	668	722	780
Customer deposits (Rmb bn)	-	295	348	410	474	540	603
Total liabilities (Rmb bn)	-	402	466	576	652	728	802
Shareholders' equity (Rmb bn)	-	32	36	41	47	53	59
Core CAR %	0.0%	11.3%	11.9%	10.1%	10.7%	11.0%	11.2%
Total CAR (%)	0.0%	13.2%	13.6%	12.4%	12.9%	13.1%	13.2%
NPLs/Gross loans (%)	0.00%	0.98%	0.80%	0.78%	0.81%	0.86%	0.86%
Ratios and Valuation Data							
EPS (Rmb)	-	0.58	0.65	0.73	0.82	0.86	0.86
EPS growth (%)	0.0%	0.0%	11.9%	13.8%	11.2%	4.8%	1.0%
P/E (X)	-	8.4	7.3	6.6	5.9	5.5	5.4
Core EPS	-	0.58	0.65	0.73	0.82	0.86	0.86
Core EPS growth (%)	0.0%	0.0%	11.9%	13.8%	11.2%	4.8%	1.0%
Core P/E (X)	-	8.4	7.5	6.6	5.9	5.6	5.6
FD EPS (Rmb)	-	0.58	0.65	0.73	0.82	0.86	0.86
FD EPS growth (%)	0.0%	0.0%	11.9%	13.8%	11.2%	4.8%	1.0%
P/E (FD) (X)	-	8.4	7.5	6.6	5.9	5.6	5.6
DPS (Rmb)	-	0.17	0.19	0.20	0.22	0.23	0.24
Dividend yield %	0.0%	3.5%	4.0%	4.1%	4.6%	5.0%	5.0%
BVPS (Rmb)	-	3.43	3.90	4.45	5.08	5.72	6.36
Price/ BVPS (X)	-	1.42	1.21	1.09	0.94	0.82	0.74
Return on avg equity (ROAE) %	0.0%	33.6%	17.6%	17.6%	17.1%	15.8%	14.3%
ROAA (Post-tax) %	0.00%	1.24%	1.28%	1.22%	1.18%	1.14%	1.07%

Source: Companies, DBS Vickers

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
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FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
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Share price appreciation + dividends

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